



## EUROPEAN NEWS

## European Parliament agrees Britain's budget contributions

BY QUENTIN PEEL IN STRASBOURG

THE European Parliament yesterday all but abandoned its long-running battle to unscramble the system for reducing Britain's budget contributions to the EEC, when MEPs voted for a Ecu 28.5bn (£16.4bn) budget for 1985.

Christian Democrats sided with British Tory members to vote down a last-ditch attempt to put a time-limit on the system, which will allow Britain a reduction of Ecu 1bn this year, and two-thirds of its net contributions in future years.

The move clears the way for the C-Community to have an agreed budget in the course of next month, although the Parliament has still included extra spending which is virtually certain to be rejected by the Council of Ministers.

The parliament's budget is almost Ecu 1bn more than the Ecu 27.5bn agreed by the Budget Ministers in Luxembourg last month, and would require member states to pay an extra Ecu 384bn in the current year, on top of the Ecu 1.98bn they have already agreed upon.

However, the key issue of principle facing the MEPs yesterday was whether to agree to the British payments being allowed as a reduction in VAT contributions to the Community as decided at last year's Fontainebleau summit, or whether to insist that they should only be paid in the form of special spending programmes.

The centre-right majority in the European Parliament yesterday narrowly defeated a proposal that the EEC compensate Nicaragua for damage to its economy caused by a U.S. trade ban, Reuters reports.

A majority of members believe that the British rebate system is illegal, because it means that different member states are effectively paying different rates of VAT contributions to Brussels, in contravention of the Rome Treaty. However, they failed to obtain the necessary 218 votes for an absolute majority.

The only reference left in the budget is a spending line for British "urban areas," with no money in it, and no further explanation.

The extra spending inserted by the parliament substantially exceeds the "margin" of 1 per cent which it is allowed to add to the budget, and seems certain to fall foul of the council. It assumes extra EEC revenue will be available in the course of the year totalling some Ecu 232m, which the Council had chosen to ignore.

The parliament also called on the member states to increase their emergency financial package to the Community to cover an estimated deficit of Ecu 417m for 1984—a move which would increase the size of the package from Ecu 1.98bn to Ecu 2.37bn.

## Norwegian spy trial awaits verdict

By Fay Gjester in Oslo

THE TRIAL on espionage charges of Mr Arne Treholt, former Norwegian politician and diplomat, ended yesterday with a final plea of innocence by the accused, in an open session of the court.

No verdict is expected for at least three to four weeks. The case has been heard by a panel of seven judges—there is no jury, in a Norwegian treason trial—and the seven are expected to take some time to reach their verdict.

Many sessions of the trial—which has been running for more than 10 weeks—have been closed to the public, because of the sensitive nature of some of the evidence.

Mr Treholt, 43, is alleged to have aided for both the Soviet Union and Iraq, and to have accepted payment for his services. The prosecution has called for a 20-year sentence—the maximum possible penalty under the relevant Norwegian law—as well as confiscation of Nkr 1.1m (\$121,200) which Mr Treholt is alleged to have received from Russian and Iraqi agents.

In his final plea, Mr Treholt claimed that his admitted encounters with Soviet agents—although "unconventional" and "at variance with formal rules"—had been aimed at increasing East-West understanding.

He had never revealed any military information or any other information likely to hurt the country's security.

The prosecution's demand for a 20-year sentence was "absurd and meaningless" and the allegations that he had acted for monetary gain were insulting and hurtful "both to myself, my family and my friends."

Mr Treholt's defence lawyers have called for a verdict of innocent on all counts. They say the prosecution has not proved that he passed to the KGB any of the documents mentioned in the indictment, and that in any case the material involved—even if put in alien hands—would not hurt Norway's security.

The clause in the Norwegian penal code which justified the 20-year sentence for spying says the information revealed must actually threaten national security. Far milder penalties will apply if the court should conclude that the documents do not fit this definition—even if it decided that Mr Treholt did pass them on.

David Fishlock reports on Moscow's move to allow nuclear safeguard inspection

## Focus on unique Soviet N-plant

THE CHANCES seem good that the Soviet Union will offer its small Bilibino dual-purpose nuclear station as one of perhaps four which will be opened for the first time to safeguard inspectors of the International Atomic Energy Agency in Vienna this summer.

The Soviets have promised that these plants will be inspected soon, so that the results are available in good time for the Non-Proliferation Treaty (NPT) Review Conference.

However, academician Andrei Petrosyan, the Politburo's chief nuclear adviser, has made it plain that only reactors are to be inspected, not the fuel factories; and only the Russian pressurised water reactor (VVER), developed—like its American counterpart—initially as a submarine PWR. Even among the Russian PWRs there are reactors too close to the Russian submarine reactor to be opened to international inspection.

Nor will the Soviets accept inspection yet of their RBMK reactor, the graphite-moderated system they have developed as a dual-purpose reactor making both electricity and copious plutonium for the nuclear weapons programme. They licence their PWR for construction abroad, provided all spent fuel is returned to the USSR, but they will not licence their "plutonium furnace."

The Bilibino reactor has a dual purpose—combined heat and power (CHP)—to provide heat as well as electricity and is a unique part of Russian nuclear technology. It has served a diamond mining town in the Chukotka region of the far north-east of the country since 1973 and has been of a considerable economic and social significance for the rugged region. It is cheaper to run than fossil-fired CHP plant.

Essentially CHP means that

some of the low-pressure steam which would normally help to generate electricity is bled off as hot water. The waste steam from electricity-only stations is too cool to be used as heat for, say, district heating.

The Bilibino reactor helped to pioneer this Soviet speciality in nuclear technology, which has also been developed in Eastern Europe. A prerequisite is a reactor technology considered safe enough to be built close to built-up areas, in order to minimise the heat losses in long transmission lines, as well as the expense.

Bilibino, a 48 MW reactor, is about 25km from the nearest town. So is the Odessa CHP station, which when ready will consist of two 1,000 MW PWRs. By using the new Russian TK-450-300/80 turbines, two per reactor, the plant is designed to deliver 80 MW of electricity and 900 gigacalories per hour of heat per reactor. It is expected to meet peak heat loads as high as 3,000 Gcal per hour in the bad weather, however. Its heat lines, 1m in diameter, weigh 60,000 tonnes.

By opening Bilibino to international inspection, the USSR could give the West some insight into its progress with a purely civil nuclear technology unique in many respects to that nation.

Several Russian nuclear stations are already delivering small amounts of heat, from 30-200 Gcal per hour, according to a report in the current IAEA Bulletin. This heat goes to people in the vicinity of the station, mainly as hot water.

The Soviets believe, however, that there is a technical opportunity in the flat-dwelling populations of Eastern Europe for a single-purpose, heat-only nuclear system located close to the customer. They have developed a reactor for this

purpose which has no counterpart elsewhere in the world. Two full-scale pilot projects are already under construction to supply district heating to the cities of Gorky and Voronezh.

At Gorky, the closed Siberian Community where Andrei Sakharov the dissident scientist is confined, the nuclear heat plant (NHP) is being built only 2km from the city boundary, although the average distance to its centres of demand is 10 km. Its twin 500 MW reactors are expected to replace 270 small fossil-fuelled boilers, and to meet 50 per cent of the energy requirements of a hot-water "heat grid" 60km in length. It is expected to come into service in three years' time.

According to IAEA officials, the nuclear reactors will provide the base load with fossil fuel used to meet peaks in demand. But the closed system will also include hot-water storage to help smooth the demand.

The reactor the Soviet Union has designed for this purpose is low-temperature and pressure by conventional PWR standards. One major safety feature is the way its pressure vessel fits snugly into the reactor containment.

Should the steel pressure vessel lose its cooling water for any reason, the concrete containment would flood to sufficient depth to cover and cool the nuclear fuel. In effect, the containment serves as a second pressure vessel.

Another safety feature, designed to avoid any risk of radioactivity finding its way into the hot-water supply, is the use of three circuits to isolate the reactor.

The primary circuit is entirely within the reactor vessel. An intermediate circuit of 50cm diameter pipes then transfers its heat to the heat-grid itself. It operates at just

over half the pressure of the primary circuit.

Two versions of this NHP reactor have been designed, the AST-500 of 500 MW heat capacity, planned for Russian cities, and the AST-300, of 300 MW heat capacity, seen as enlarging the potential export market for NHP reactors. But there are indications from neighbouring nations that still smaller reactors, 100-200 MW, may be more welcome.

Several East European countries are already investigating nuclear district heating, according to IAEA officials. East Germany, for instance, has established that the AST-500 has basic characteristics that match the requirements of its cities, including that of Berlin, the biggest.

At present, E. Germany burns 80m tonnes of brown coal annually to supply district heat. But it is exploring heat extraction from its 440 MW PWR at Bruno Leuschner.

Bulgaria, with the highest proportion of nuclear electricity—over 30 per cent last year—of any Communist country, expects nuclear heat to begin to meet some of its district heating demand. It has 27 centralised heat-supply systems, of which two—for the cities of Sofia and Plovdiv—are expected to exceed 1,000 MW by the end of the decade. But Bulgaria is one which sees a need for heat-only reactors of 100-200MW capacity.

Czechoslovakia is another. It believes 500 and 300 MW heat-only reactors have limited scope compared with 100-200 MW reactors, and plans to tackle what it sees as new design concepts needed for such small plants. Meanwhile, it is planning to tap nuclear heat from its Dukovany nuclear power station, with four 440 MW PWRs, to supply 500 MW as hot water for a 40km grid already under construction for the city of Brno.

## Unesco reform battle resumes

PARIS—A long-running tug-of-war over the future of Unesco, the United Nations Educational, Scientific and Cultural Organisation, resumed yesterday with a loose coalition of Western countries pressing for big changes in its programmes and management.

A six-week session of the 51-member executive board will set the stage for the troubled organisation's general conference in Sofia in October.

After the general conference will come the make-or-break point when leading contributor nations who have been pushing for reform will have to decide whether to follow the U.S. in withdrawing.

Britain has already given notice of withdrawal at the end of 1985 but diplomats say it is more likely to reconsider than the U.S. was at the same time last year, providing its goals are achieved.

Other countries which have said they will reconsider their position in Unesco are West Germany, the Netherlands and Japan.

Diplomats say the executive board session will be crucial because its recommendations, particularly of Unesco's programme for 1989-97, will point the way towards what is likely to be approved in Sofia.

At recent board meetings, developing countries and the Soviet bloc have strongly resisted attempts, led by five Nordic nations, to concentrate Unesco's programmes and set clear priorities.

The Western view is that Unesco should stick to activities which have all-round support, cut back on theoretical studies and drop issues such as disarmament which are handled elsewhere in the UN system.

## French foreign currency premium wiped out

BY PAUL BETTS IN PARIS

FRENCH RESIDENTS can now buy foreign currency to acquire foreign shares or securities without paying a premium. Premiums were first introduced by the Government in May 1981, as part of a battery of stringent foreign exchange controls to protect the franc and try to stem the flow of domestic funds into foreign securities.

The premium on the so-called "devise titre" has been literally wiped out in the past

few days with the value of the dollar in the currency premium market now level with the free dollar-franc rate.

At the beginning of last year the premium was as much as 33 per cent above the free dollar-franc rate. It has been steadily coming down in recent months reflecting the greater confidence in the French currency and the increased interest by both domestic and foreign investors in French securities.

## Portugal tells U.S. it will continue Nicaragua trade

BY DIANA SMITH IN LISBON

PORTUGAL INTENDS to continue trading with Nicaragua and to press energetically for greater support for the Contra group's attempts to end negotiated solutions in Central America, whatever U.S. current policies.

This stance was conveyed to Mr George Shultz, the U.S.

Secretary of State, by Sr Jaime Gama, his Portuguese counterpart, at late night talks on Wednesday following President Ronald Reagan's arrival here.

Portugal has only modest trading links with Nicaragua but it seems that it was slightly upset at not being told in advance of the U.S. trade boy-

cott. On the question of negotiated settlements for Central American conflicts, the Portuguese have long held dialogue with, not support for, the Contras in the case of Nicaragua is the best route for reconciliation.

Sr Gama also voiced his Government's belief that, until

recently, the U.S. had favoured Indonesia in the ten-year-old drama of East Timor, the former Portuguese colony annexed forcibly by Indonesia after the Portuguese military had pulled out in 1975.

Following a longstanding attitude of Portuguese governments, Sr Gama said that more

financial and military aid should be given by the U.S. to Portugal in return for its use of the Lajes air base in the Azores. If Congress approves, about \$1bn in civilian and military aid is likely to come Portugal's way over seven years.

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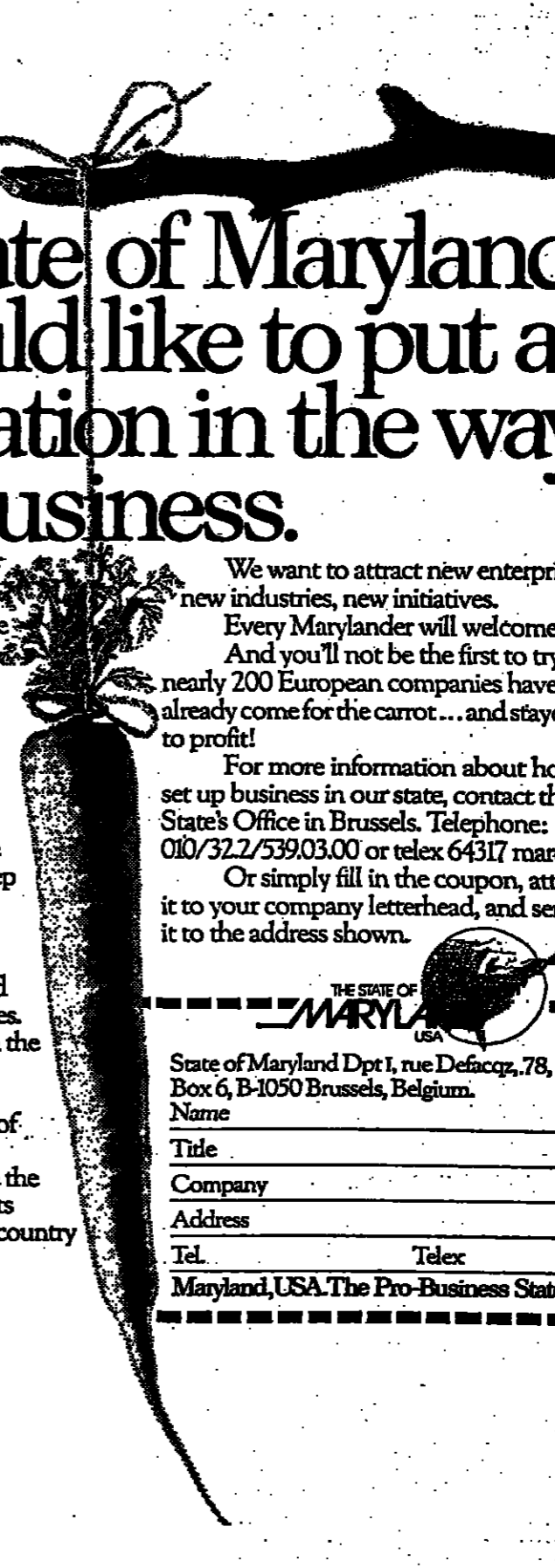
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## OVERSEAS NEWS

## VW backs catalytic converter to meet EEC exhaust rules

## Senegal faces trouble

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OVERSEAS NEWS

# Migrant workers quit S. African township as 16 die in fighting

BY ANTHONY ROBINSON IN JOHANNESBURG

THE DEATH toll in five days of fighting between migrant workers and township inhabitants in Tsakane east of Johannesburg rose to 16 yesterday. Later police reported that tension had subsided following the exodus of the 1,800 migrant workers who are being sent back to their distant homelands.

The eruption of ethnic violence between Xhosa and Zulu migrants from rural tribal areas and settled urban township inhabitants has added another dimension to a complex pattern of black-on-black violence, which has its roots in high unemployment as much as political frustration.

Attacks on the lives and property of black local councillors and their families, the first targets of black violence, are still continuing, but less frequently as most have now either resigned or left the townships.

Increasingly the violence is between supporters of the United Democratic Front (UDF), the multi-racial anti-apartheid organisation which the Government claims is a front for the banned African National Congress (ANC) and the radical, black consciousness Azanian Peoples Organisation (Azapo).

Moves are now underway to seek a truce between the two movements to limit the opportunities for the authorities to capitalise on intra-black rivalries.

The Government for its part has just announced a R10m (£4.1m) emergency job creation programme to provide jobs in rural and urban areas in an attempt to ease the underlying pressures.

It has also put flesh on the announcement by Mr Gerrit Viljoen, Minister of Co-operation and Development, last January that the Government was reviewing its policy of forced removals of blacks. Removals will still go ahead in some areas but 700,000 blacks in 52 townships around the country have had the threat of removal removed and the emphasis will now switch to infrastructure development and new house building.

Reports continued to flow in yesterday, however, of continuing unrest, arson and stone-throwing in Soweto, the largest black township, south of Johannesburg, and elsewhere in the country. Combined police and army patrols moved into the township of Fort Beaufort and Adelaide in the Eastern Cape in a repeat of similar operations carried out in other Eastern Cape townships over the last few days.

The army yesterday reported its first fatality after six months of such combined operations when a 24-year-old soldier was killed in a head-on crash between two armoured vehicles.

Meanwhile the police yesterday reported that a second man had died in police custody following the death on Monday of a trade union organiser, Mr Andries Raditsela. The second victim was Mr Sipho Mutisi, a 20-year-old student activist.

Mr Mutisi was taken to the Odendaalsburg police station in the Orange Free State last Saturday night and was confirmed dead on his arrival at Bloemfontein hospital the next day.

## Lebanese bomber kills three

A YOUNG Lebanese woman suicide bomber blew herself up and killed two others in an explosion yesterday morning in the Israeli-controlled area of southern Lebanon, David Leeson reports from Tel Aviv.

The woman detonated the explosives in a suitcase she was carrying, when asked to open it by members of the Israeli-backed South Lebanon militia. The incident occurred near the village of Hasbaya in south-eastern Lebanon. A member of the militia and his wife, who was with him in their car, were killed instantly by the massive explosion.

Last month, another young Lebanese girl blew herself up when she drove a bomb-laden car into an Israeli checkpoint in southern Lebanon. Two Israeli soldiers died in that incident. In March 12 Israeli soldiers were killed, when another car bomb exploded near the Israeli border.

Israeli exports to Lebanon, Page 7

## Pakistan aid pledges 'a vote of confidence'

MR MAHBUBUL HAQ, Pakistan's Minister for Finance and Planning said on Wednesday that the pledge by the Western aid consortium on Tuesday of \$2.1bn assistance to his country for fiscal 1985-86 which starts July 1 is "a tremendous vote of confidence" and an indication of "wholehearted support for the economic policies of the newly elected Government."

"The Pakistan consortium has pledged total foreign assistance of \$2.1bn which exceeds Pakistan's request for \$1.8bn," he said.

## Seven die as Gujarat rioting flares again

Trouble flared once again in the riot-ridden state of Gujarat in Western India on Wednesday night when seven people were killed in the aftermath of sectarian clashes in Ahmedabad, the capital, despite a curfew, K. K. Sharma reports from New Delhi.

The clashes came after the state government led by Congress-I Chief Minister Madhavsinh Solanki had won a brief respite after 1.2m state employees called off a two-day strike connected with the two-month-old agitation over job reservations for the backward castes.

## Australia's trade deficit up

BY MICHAEL THOMPSON/NOEL IN MELBOURNE

A SURGE in imports helped push Australia's trade deficit for the nine months to March to A\$1.6bn (£950m), against a trade surplus of A\$1.8m for the same period last year.

As a result, the balance of payments deficit on the current account grew to a record A\$8.3bn for the nine-month period, up almost A\$3bn.

The Government had insisted recently that it is fully in control of the economy, despite a sharp devaluation of the Australian dollar.

Next Tuesday, the Treasurer,

Mr Paul Keating, is due to make a financial statement in Parliament emphasising the Government's determination to hold down government expenditure.

AP-DJ adds from Canberra: The Government is expected to spend A\$68.26bn in the year ending June 30 1986, up 6.7 per cent from A\$63.95bn budgeted for the current financial year.

According to estimates released yesterday, the Federal Government's spending as a share of gross domestic product is expected to reach a record high of 31.1 per cent in the next fiscal year.

# Richard Johns reports from Amman on the contradictions surrounding the Shultz visit to the Middle East Peace process pursued through a cloud of confusion

CONTRADICTION and confusion pervaded Amman this week on the eve of the visit by Mr George Shultz, the U.S. Secretary of State, to sound out prospects for a new round of Middle East peace talks.

A high-level Jordanian-Palestinian delegation departed for Peking at the beginning of a diplomatic offensive aimed at promoting the peace initiative agreed by King Hussein and Mr Yasser Arafat three months ago.

But, just as they prepared to leave several members of the Palestine Liberation Organisation's executive committee were denying that the Hashemite monarch and the chairman of the PLO had settled on a formulation of a joint team to enter into a dialogue with the U.S. on the possibility of negotiations with Israel. Senior Jordanian officials, on the other hand, said that compromise on Palestinian participation had been reached.

Mr Shultz is due to arrive in Amman today, followed by trips to Cairo tomorrow and Agaba, for talks with King Hussein, on Sunday. The indications are that a list of names to be included in a prospective Jordanian-Palestinian delegation, acceptable to Israel, has been finalised in advance of the talks. But beyond that, prospects for the initiative remain murky.

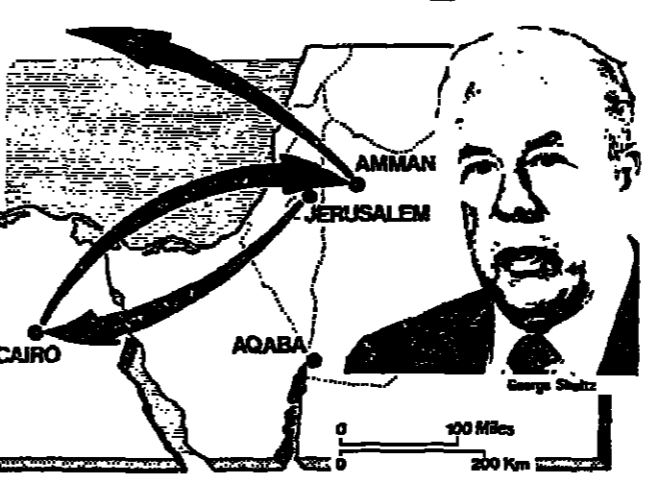
Mr Arafat is reliably understood privately to have given his blessing to a formula whereby members of the Palestine National Council, or parliament-in-exile, who are not members of the PLO or the fighting groups under the organisation's umbrella would participate. His colleagues' denials were in line with the decisive of the executive committee in Baghdad a fortnight ago which rejected such a formula as well as the alternative U.S. condition for PLO participation—acceptance of United Nations Security Council resolution 242 and Israel's right to exist.

Procedurally, a fudged and ambiguous compromise was probably the only way out. Whatever the status of Mr Arafat's endorsement, it might not appear to be the best basis for the dialogue first proposed in March by President Hosni Mubarak of Egypt.

Earlier this week, Mr Taher al Masri, the Jordanian Foreign Minister, acknowledged that prospective talks would be "a long process and a risky one."

But there can be no doubt about King Hussein's sincerity and concern that they should go ahead as a precursor to substantive negotiations.

The "historic responsibility" felt by King Hussein for recovery of territory occupied by Israel in 1967 derives mainly from Jordan's participation in



the war in support of Egypt, which brought about the loss. Over half of his country's population is of Palestinian origin, and he regards the solution of the Palestinian problem as an important insurance for his regime's long-term survival.

A little more than a year ago, however, the King, was gloom-ridden, almost to the point of washing his hands of the issue, and bitter in his publicly-stated disillusionment with the U.S. over its wholesale backing for Israel. With the West Bank virtually annexed and the ownership of more than half of it wrested from its Arab inhabitants, a number of factors prompted him to attempt to

Minister, and his stated commitment to consider some kind of deal over the West Bank.

The hope is that buoyed by the success of talks, the early withdrawal of troops from Lebanon, the Labour Party, campaigning on a peace ticket, might be returned to power if an election was called, without the encumbrance of a Likud partnership.

As for the PLO, the assumption, or hope, in Amman would be that it will make necessary concessions in time, including the acceptance of UN resolution 242, which King Hussein failed to achieve at the PNC meeting here in November.

The Jordanian time frame for a settlement is evidently a short one, a mere two years or so. "We want to start the ball rolling. Once the ball starts rolling, anything could happen," says Mr Masri. In the face of what most observers would regard as considerable wishful thinking and with intimate knowledge of its strategic partner, the U.S. Administration is sceptical, while anxious not to dampen the optimism and undermine its endeavour. The State Department realises that for the indefinite future, no Israeli politician could contemplate both dealing with the PLO and surviving.

An immediate PLO recognition of Israel and renunciation of violence would make no difference, U.S. diplomats say. Even with such a concession, PLO entry into any new peace process would kill it at birth.

Moreover, Washington rejects the proposal for an international conference involving members of the UN Security Council and Syria, which is part of the February 11 accords. Indeed, both Moscow and Damascus condemned the joint initiative.

Having apparently drifted to the conclusion that the problem of a Palestinian homeland was too intractable to solve, the U.S. Administration reacted slowly and cautiously to Mr Mubarak's proposal for an American dialogue with a joint delegation.

Subsequently drawing a distinction between members of the PLO and the PNC, it now sees such a forum as a possible means for bridging eventually the chasm between Israel and the PLO. Mr Shultz may be able to obtain Israeli acquiescence to the idea of a U.S. official talking to a PNC member fairly quickly.

In the meantime, the State Department is stressing that the main purpose of Mr Shultz's visit to Jordan is to sound out and gauge King Hussein's thinking before his visit to Washington at the end of May. As for the dialogue with the Jordanian-Palestinian delegation, Mr Shultz and his aides are very anxious not to raise any false expectations.

## FOCUS ON OVERSEAS INVESTMENT AND CAPITAL EXPORT

# NIPPON KOGAKU: Riding the Microchip Wave

By Richard C. Hanson

Mr. Shigetada Fukuoka, President of Nippon Kogaku K.K., has a very clear picture of his company's future. Perhaps to the surprise of camera buffs, high-quality cameras will play much less of a role than in the past, when the Nikon brand-name became an international symbol of Japan's success as an exporting nation.

Nikon is now applying its technological skills to producing super-precision equipment for the semiconductor industry. Mr. Fukuoka sees the semiconductor industry competing in producing more and more powerful microchips (integrated circuits). One reason: companies like Nikon are providing the sophisticated machinery needed for the next stages of development. Nikon's step-and-repeat-exposure systems (known as steppers), which expose IC patterns on silicon wafers, are becoming more and more popular.

Mr. Fukuoka explains why semiconductor equipment will soon replace the camera as Nikon's biggest seller:

Hanson: Nippon Kogaku built a world-wide reputation as a maker of high-quality Nikon cameras. The single-lens reflex camera market is no longer growing as fast as it used to. In what direction, technologically, is Nikon headed now?

A la carte basis. Take for example large astronomical telescopes for observatories; Nikon has produced all but one of those built since the Second World War in Japan. To perfect ourselves in this field we had to develop our ability to manufacture precision machines. About 15 years ago, a Japanese semiconductor company came to us and asked whether we could make certain kinds of measuring instruments. They proved very useful, and eventually we were able to market them as our own line of standard products. And even before then, maybe more than 20 years ago, a U.S. manufacturer making machines for integrated circuits came to us. They needed a highly sophisticated lens for a machine to produce photo-masks for ICs. Those machines were used around the world to produce ICs for use in smaller computers. And in a sense, those small computers are what eventually enabled the U.S. to send satellites to the moon. Our lenses played a role in making that possible. It was also the start of our experience with semiconductors.



Mr. Shigetada Fukuoka, President of Nippon Kogaku K.K.

the camera division? Looking ahead, how important will cameras be?

Fukuoka: We'd be very happy if we could reduce the proportion of our camera sales to below 30% of the total. This doesn't mean that we are reducing the volume of our camera sales, however. Nor does it mean that our efforts in the photography business will be any less.

It's simply that cameras are a mature industry and we can't expect as much from it as we used to.

Hanson: What about new technology for cameras?

Fukuoka: The so-called electronic cameras may replace the conventional silver halide film camera. But that is quite a long way in the future. Right now you can't get the same quality from an electronic camera.

Hanson: So the importance of steppers and semiconductor equipment will increase.

Fukuoka: As I said earlier, they now take about 27% or 28% of our sales. This will probably grow to about 50%.

Hanson: Where will the growth come? How do you see demand in the domestic market compared with the overseas market?

that the Japanese companies have been more aggressive than American companies in upgrading their production to high-level memory chips. Under such circumstances, it is tough to tell what will happen to the proportion of Nikon equipment that will be purchased in Japan and in the U.S. For example, up until about three years ago roughly 90% of the various IC production equipment being used in Japan was imported from the U.S. Now a major proportion is made in Japan. That gives you an idea of what the future holds.

Hanson: Do you worry about trade friction?

Fukuoka: Yes, and we are very cautious in trying to avoid causing trade problems.

Hanson: How does Nikon approach research and development?

Fukuoka: It is hard to put a figure on what our R&D costs. Each of our divisions has its own research efforts. We also have a central laboratory, which looks at product areas not in any of the divisions.

Hanson: What kind of products are coming along?

Fukuoka: One example is the erasable and rewritable magneto-optical disk for use in computers.

Hanson: How long will it be before you make it into a commercial product?

Fukuoka: For the next year it will remain in the research stage. We haven't set a definite schedule for launching it yet.

Hanson: What sort of overall sales projections do you have for the future?

Fukuoka: Over the next two or three years, we expect sales to grow by about 15% to 20% a year. That's what we want to achieve. Semiconductor equipment will of course be the fastest growing sector.

Hanson: We've talked about the U.S. semiconductor equipment market. What about Europe?

Fukuoka: Four years ago, we planned to set up a showroom in Düsseldorf, West Germany, to show our semiconductor equipment. But response was not as good as we hoped, and we wonder why the European semiconductor industry has been so slow to develop. Things may finally pick up this year.

Hanson: Europe seems to be a better place to raise capital.

Fukuoka: Yes, we've raised dollar funds in London and issued bonds in Swiss Francs. In April we issued a convertible bond in Japan. Our need for funds will increase constantly in coming years.

Hanson: Would you consider moving any of your production overseas?

Fukuoka: We have no plans to do so at present. With cameras, they are perfect products for manufacturing in Japan. They are small and can be shipped easily. As we progress into making more of the larger products, it could be different.

Hanson: Let me just ask one final question about cameras. One of your competitors has just launched a new highly automated single lens reflex. Do you plan to follow?

Fukuoka: We are thinking about it. Remember the best always comes out later. The prima donna is always the last on the stage.

Used by Professionals

Fukuoka: For about 30 years, cameras accounted for about two-thirds of Nikon's sales. Our company image was definitely that of a camera maker. Nikon was used by professionals, advanced amateurs and others. We are still working hard at making cameras and camera sales grew by 9% last year. But in the year which ended in March, cameras for the first time accounted for less than 50% of our total sales.

For years, we tried to reduce the share of cameras in our sales, but the growth of the camera market made it difficult to do so. For the past 15 years or so we have worked to emphasise the area of super-precision machinery as much as we emphasise cameras. This move has coincided with the rapid growth of the semiconductor industry. As a result of putting a great deal of effort into developing measuring instruments and manufacturing equipment for the semiconductor industry, these products are now very successful. Last year they accounted for 27% to 28% of our sales. Such machinery combines three types of our most sophisticated technology: optical systems, super-precision mechanisms and electronic circuitry.

Hanson: How did you get started in the making of precision machines?

Fukuoka: We have always had a precision machinery division that is separate from our camera division. We have been making precision machines to order for more than 60 years. In fact, that was the reason Nikon was originally established. And Nikon has been one of the few companies capable of making this precision equipment to order. A customer comes to us and says we need such and such a precision machine. Nikon provides it on an

VLSI Project

About eight years ago, a Japanese government-sponsored VLSI project came to us and asked whether we could produce a stepper, the machine which prints IC patterns in widths about 1 µm on silicon wafers.

We concluded that a stepper would make use of all the technology that we had been developing over the years, and agreed to make a trial model. That's precisely when the IC industry took off. Our machines helped produce the 64K-bit DRAM microchip, which at the time was the largest scale integration coming to the market.

Hanson: So Nikon's ability to make the stepper helped Japan's VLSI project to succeed. Three years ago, Nikon established a subsidiary to sell its products in Silicon Valley. What is the strategy for the U.S. market?

Fukuoka: Actually before we began making steppers we were making various kinds of measuring instruments. They had a very good reputation among Japanese IC makers. We first thought of selling them in the U.S. market about nine years ago. Nikon already had a large organisation in the U.S. selling cameras and optical equipment. But it would have

been impossible to sell these sophisticated instruments through the same network. A separate organisation for selling measuring equipment was considered; but when the steppers began to take off, we had our hands full in just supplying companies in Japan. Finally, three years ago we established Nikon Precision Inc. in California. At NPI, we built a showroom where customers could try the products out. Nobody is going to buy an expensive machine by simply looking at a catalogue. They have to try them. The next step was to be able to provide after-sales service.

Hanson: How successful have you been in America?

Fukuoka: First, remember that it is very important to establish the after-sales maintenance and service network before actually beginning to sell the products. Semiconductor plants operate 24 hours a day. Steppers are highly complex machines. When they break down, you have to repair them right away. Things are a little more relaxed with inspection equipment. Another point is that an IC maker usually does not purchase only a stepper. In order to produce ICs, you have to have ten or 20 machines. They are expensive, and a large number represent a sizable investment. So the buyer wants to make absolutely certain that the machine is reliable. We have spent quite a lot of time taking machines to various companies for testing.

Hanson: Where does your push into semiconductor equipment lieve

Developing the Overseas Market

Fukuoka: Up until now we've been very cautious in developing the overseas market. For the year which ended in March, we sold about 50 stepper units to American companies. This year, I'd say we will sell about 70-80 steppers or even more. Of course, we want to increase the amount of sales, but the question of the proportion between domestic sales and overseas sales is hard to answer. There is one good reason for not knowing. Look at the progress of VLSIs. We've already moved from the 64K DRAM, which was the standard, to the 256K DRAM. The next step for IC manufacturers will be the shipment of samples of 1-megabit microchips—4 megabit, 16 megabit and so on will follow. For semiconductor companies to make these larger-scale ICs, Nikon has to be able to develop these new machines.

If we can't, those companies won't be able to progress. Nikon is the top runner in the field.

Hanson: So how does competition with Americans look?

Fukuoka: The indications are

Nikon

NIPPON KOGAKU K.K.: Fuji Bldg., 2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100, Japan

Nikon Europe B.V.: Bldg. 72, 1117 ZJ Schiphol-Oost, The Netherlands

Nikon U.K. Ltd. London, U.K.

Nikon GmbH Düsseldorf, W. Germany

Nikon AG Zürich, Switzerland



Brussels gives member-states a black mark over public purchasing policies

## Where the Ten take a prize for double talk

BY QUENTIN PEEL IN STRASBOURG

IN A world of double talk, the public purchasing policies of the 10 EEC member-states must win some sort of prize.

Behind all the pious statements dedicated to creating a genuine Common Market of 10 nations, the one area over which member-governments have direct control — their national budgets for everything from army boots to mainframe computers — has proved most impervious to real competition. Fourteen years after the first EEC directives were issued to require Community-wide advertising of public works contracts, an eleven years after the same sort of rule were supposed to apply to buying equipment, only an infinitesimal proportion of government spending crosses Community frontiers.

In 1983, the last year for which a full set of figures is available — every single penny of central government supply spending in Italy went to Italian suppliers, according to figures published by the European Commission.

The figure for France was 99.1 per cent, for West Germany 99.7 per cent, and for the UK, 98.3 per cent.

Even the Netherlands, Denmark and Belgium managed to spend more than 96 per cent of their government cash for their equipment within their own borders.

The figures may slightly overstate the case, because some suppliers with national addresses actually represent foreign equipment manufacturers. But the general picture is clear.

The importance of the public sector of the market is obvious. Government contract spending accounts for between 7 and 10 per cent of Gross Domestic Product in the Community, it is estimated, or some Ecu 400bn (£200bn) a year. A very rough calculation of the cost of unfulfilled competition puts it at



10 per cent mark-up — some Ecu 40bn a year.

What has focused attention once again on the dismal lack of progress is the disproportionate importance of state purchasing in the key sectors of advanced technology and telecommunications — areas where rapid progress in the Community is critically dependent on an integrated market.

The immediate problem is that telecommunications is one of the sectors specifically excluded from the EEC directives which compel public authorities to advertise their contracts in the Official Journal (OJ) of the Community. The others are transport, water and energy, all fields of heavy state spending.

For other contracts above a specific value — Ecu 1bn for works contracts and Ecu 200,000 for supplies — formal invitations for tendering are supposed to be published in the OJ, and distributed to subscribers via the data-bank called Tenders Electronic Daily (TED).

Success of the system, modest as it is, can be measured by the steady increase in such contract notices at a faster rate than the increase in government spending in the Community. There were 1,038 in 1979, rising to 2,585 by 1983.

Within those figures, the largest number of invitations in 1983 — 710 — came from Britain, followed by France with 688.

NUMBER OF CONTRACT NOTICES IN THE OFFICIAL JOURNAL IN 1983			
Member-state	Central Government Spending	Regional/Local Government Spending	Total
Belgium	54	27	81
Denmark	43	16	59
West Germany	315	100	415
France	688	222	910
Greece	10	1	11
Ireland	19	3	22
Italy	235	174	409
Luxembourg	5	0	5
Netherlands	181	1	182
UK	510	200	710
Total 1983	1,638	745	2,383
Total 1982	1,633	648	2,281

Source: European Commission

West Germany, in spite of the largest absolute volume of public spending of any member-state, only managed to publish 415.

Different members offend in different ways. The West German practice is to decentralise procurement wherever possible to the regional laender governments. "It leads to a fairly substantial industry in project splitting, to keep contracts below the advertising threshold," according to a Brussels official.

Of all the laender, only Berlin and Hamburg go by the rules. "The others simply fail to publish."

Italy failed to implement the 1976 directives for five years, but since then has caught up with vengeance. In 1984, more Italian contracts were advertised at the EEC level than West German ones, and the enthusiasm of regional and local authorities for the system is actually threatening to overburden it.

However, both Italy and Britain use the system of restricted tendering — the closest thing to having an approved list.

More than 87 per cent of Italy's advertised contracts were subject to restrictions, and 12 per cent (the same proportion

hard-won approval from the Council of Ministers. Modifications would include:

- A requirement for public bodies to publish pre-invitation plans for contracts at the beginning of each financial year;
- Publication of their intention to award a contract by private negotiation;
- Publication of the results of contracts awards.

All should help improve the "transparency" of the system, officials say.

Extension of the directives to cover the excluded areas — telecommunications, energy, water and transport — could also take years to get through the 10-nation Council.

Instead, a process has begun of seeking a gradual and voluntary opening up of telecommunications contracts, at least. "There is no sign of movement at all on the other areas," is the word in Brussels.

The Commission should be able to move faster on one specific proposal — to ensure that any public-sector contract financed in part with Community funds should comply with the requirements to be advertised Community-wide.

Officials want that enforced in all areas, including the transport, water and energy fields.

They also are seeking ways of ensuring that contract specifications are not so drawn up as to exclude effective competition, by setting national standards as the requirement.

The other need is to get stronger backing from suppliers themselves.

"We have more complaints now than we have ever had before," a Commission official said.

This is the ninth in the series on European market liberalisation. The previous articles appeared on February 14, February 21, March 6, March 13, March 20, April 1, April 8 and April 16.

## Swiss among final bidders for Canada defence deal

By Bernard Simon in Ottawa

THE CANADIAN Government over-ruled the objections of its Nato partners, has chosen three groups headed by Swiss and Swedish companies as final bidders for a C\$600m (£348m) low-level air defence contract.

The three groups are led by the Bofors Ordnance of Sweden and the Swiss weapons manufacturers Contraves and Oerlikon-Bührle. Canadian Marconi, a subsidiary of Britain's GEC, is a member of the Bofors consortium.

Reports surfaced in Ottawa last month that the Government had been reluctant to endorse Defence Department recommendations to include only companies from non-Nato countries.

Reflecting the pressure to add British, German or French bidders to the shortlist, Defence Minister, Mr Erik Nielsen said that 70 per cent of the contract work would be allocated to Nato countries.

The Canadian Government has agreed to explain the reasons for its decision to unsuccessful bidders, including British Aerospace and the French-German group Euro-missile, next week.

The missile, gun and radar system will be used to protect Canadian Air Force bases in West Germany and a rapid deployment group in Norway.

The Government expects to award the final contract early next year, with delivery starting in 1988.

The authorities have indicated that the final choice will be heavily influenced by job-creation, local content and other socio-economic benefits offered by the three competitors.

## Dutch see natural gas sales rising 20% above forecast

BY LAURA RAUN IN AMSTERDAM

GASUNIE, the Dutch natural gas utility, will sell about 20 per cent more gas at home and abroad in the coming 25 years than was forecast last year.

In its 1985 marketing plan unveiled in Groningen yesterday, Gasunie predicted that it would sell a total of 1.545 trillion (million million) cubic metres of gas between 1985 and 2010.

That is up from a forecast made last year, of between 1.27 trillion cubic metres and 1.31 trillion cubic metres for 1984-2009.

Mr A. H. Grotens, general managing director, said Gasunie would export an extra 275bn cubic metres of gas under extension contracts that prolong existing agreements by 10 years.

This will raise exports over the 25-year period to 625bn cubic metres from the 405bn forecast last year.

The European market currently is awash with natural gas and Gasunie concedes that foreign customers are expected to take only a minimum amount

stipulated. Expanding exports from the Soviet Union and Algeria have put pressure on prices, although Gasunie hopes demand will rebound by the mid-1990s.

Export contract renegotiations, which occur every three years, recently were concluded with all four foreign customers — West Germany, Belgium, France and Italy. Following Gaz de France's move to pay in Ecus, Italy's utility, SNAM, also is considering doing the same, Gasunie said.

Under the revised export contracts, the price index was changed to correspond roughly 50-50 with heavy fuel oil and gas oil instead of the previous linkage to fuel oil only.

In the past, the Netherlands had touted its wide delivery variability as an advantage over competitors such as the Soviet Union and Algeria.

Gasunie, a mixed company that operates as the national gas utility, now is charging export customers four times as much for this delivery flexibility, Mr Grotens said.

## Israel-Lebanon trade falls

BY DAVID LENNON IN TEL AVIV

ISRAEL'S exports to Lebanon have declined sharply in the past three months as the army pulled back to the border region.

Exports had been running at \$3m-\$4m a month last year, but have dropped to only \$1m a month.

At its peak in the autumn of 1982, following the occupation of the southern half of Lebanon, Israeli sales across the border reached more than \$8m a

month. The Lebanese import a wide range of goods from Israel including sugar, rice, shoes, and even marble for building. There are no Lebanese exports to Israel.

With the Israeli forces due to complete the withdrawal within a month, trade will be restricted to 164,000 residents inside the security zone. It is not likely to rise about the \$1m a month level in future.

## Exporters 'must pay for import protection'

BY OUR TRADE STAFF

AT LEAST half of the cost of a country's import protection regime will be borne by the same country's exporters, according to a study published this week.

The report, which aims both to quantify the penalties paid and explain the mechanism by which they are transferred, based on analysis of protection in Australia and a group of South American countries.

It says that the popular impression that import controls hurt foreign suppliers and also domestic consumers (who pay higher prices) is "very far from the whole story."

Higher prices raised living costs and fed through to wage demands. "The firms least able to absorb all these costs in-

creases are exporters. Rarely are they able to pass on increases in costs to their customers because they would be undercut by competitors if they attempted to do so."

The report, for the London-based Trade Policy Research Centre, says that exporters do not oppose protection because the mechanisms by which they are "taxed" are "subtle and invisible."

"Firms rarely attack the principle of protection, for nobody can be sure when he will need it."

"How Protection Taxes Exporters," by Prof Kenneth Clements and Larry Sjoastad, TPRC, 1, Gough Square, ECA4 3DE, £8.50.

## Asea subsidiary wins £17.8m Ford contract

THE ventilation equipment subsidiary of Asea, the Swedish electrical engineering and electronics group, has won another important order for paint finishing equipment from Ford, the U.S. car maker, David Brown reports from Stockholm.

The order, worth SKr 260m (£17.8m) involves a painting module, ventilation system and drying oven for Ford's new plant in Sonoma, Mexico, and will be delivered from Sweden in the summer of 1986.

Last month, the group announced similar contracts worth a total SKr 500m from General Motors.

## U.S. groups 'in Lagos oil-barter talks'

Two U.S. trading companies, Motors Trading Corp., the Detroit countertrade subsidiary of the U.S. car-maker General Motors Corp. (GM), and World Trading Organisation of Houston, are negotiating with Nigeria for long-term crude oil-barter arrangements, U.S. oil industry officials say, AP-DJ reports.

A GM official confirmed that his company is talking with Nigeria about the sale of GM trucks, diesel engines, and railroad equipment in exchange for Nigerian oil and other commodities.

## Irish trade hopes

The Irish Republic could have its first trading surplus in 40 years in 1985, according to the annual report of the Irish Central Bank, Brendan Keenan reports. However, heavy foreign debt repayments and repatriation of profits by foreign companies will still leave a balance of payments deficit of £1750m (£609m), equivalent to 5 per cent of Gross National Product, the bank adds.

## Malta export boost likely

MALTESE exports to the Soviet Union this year are expected to improve markedly, according to the Maltese Government, Godfrey Grima reports from Valletta.

Last year, Soviet purchases from Malta totalled M\$9.94m (£14.9m) including ship-repair orders awarded to Malta Dry Docks.

By April this year, the Malta Government says, the Soviet Union had already placed orders worth M\$9.4m (£15.6m) for goods assembled on the island.

The Government's statement came in answer to opposition suggestions that Soviet orders were dipping below their projected levels.

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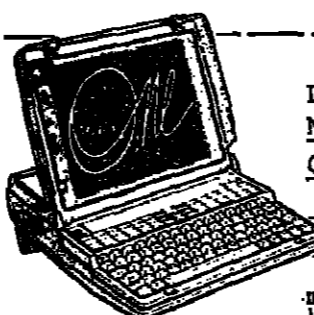
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## UK NEWS

# Elkem considers closure of Manchester Steel

BY NICK GARNETT, NORTHERN CORRESPONDENT

ELKEM, the Norwegian metals group, appears to have made substantial progress in discussions with Allied Steel and Wire on proposals for rationalising the UK's rod and billet capacity.

The only scheme understood to be under detailed consideration involves the closure of Manchester Steel, Elkem's British operation, which has a yearly capacity of about 300,000 tonnes from its plants at Manchester and Bidston, Merseyside.

Allied Steel and Wire, a joint British Steel Corporation and GKN company, has proposed a substantial funding package to encourage Elkem to shut its British operation. This would have to go before the Elkem board, scheduled to hold its next meeting on May 22.

The Oslo-based company has declined to comment on the progress of the talks but British steel unions believe an agreement could be very close.

The Amalgamated Society of Wire Drawers and Kindred Workers, which together with other unions is fighting any reductions in

Steel demand in the UK is probably higher now than at any time since 1979. Output last month averaged 384,200 tonnes a week, the highest rate since June, 1980. The underlying demand in the second quarter of 1980, however, was probably weaker than the figures suggest. Steel consumers were then restocking after the three-month strike in the industry.

Last month's output was only marginally ahead of the revised rate in the previous month, but it was 18 per cent ahead of the average weekly production in April, 1984. The figures cover the output of both the private and public sector steel producers.

UK capacity, sent a deposition yesterday to the Office of Fair Trading.

The unions say the closure of Manchester Steel would drastically limit the number of British suppliers to the UK market. Allied would be left as the only British producer of 12.5 to 13.5mm rod and the unions argue that total rod imports

to the UK from continental Europe - which they say run at 20 to 25 per cent - would rise further.

The unions met Mr John Butcher, junior Industry Minister, last week to express fears at the possible loss of 850 jobs at Manchester Steel. In a reply yesterday to questions by local MPs, Mr Butcher said that it was for private sector steel companies to carry out their own rationalisation schemes.

The discussions are almost a re-run of the talks in 1982 when a consortium of Allied, Templeborough Rolling Mills and Sheerness attempted to entice Elkem to close Manchester Steel in a package worth £16m to £20m.

This time, however, Templeborough, a joint British Steel-Bridon company, which is spending £3m to improve quality and increase its size of coils, is not involved in the talks. It is not clear if Sheerness is taking part.

Elkem decided to reject the consortium's offer 2½ years ago, but the Norwegian company appears to be as much the initiator of the present discussions as Allied.

## Value of star wars research questioned

By Peter Marsh

BRITISH involvement in the information-technology aspects of the U.S. Star Wars programme could divert valuable talent away from commercial projects, according to the UK's leading civil servant in computing research.

Mr Brian Oakley, director of the Government's Alvey directorate in advanced computing, yesterday expressed scepticism that star wars research could have useful spin-offs in commercial areas.

"I would not want Britain to use its high-quality manpower in providing an input to a conjectured military system. If you have a lot of people devising, say, software for a star wars system, in my view they would be better employed in a commercial project."

Mr Oakley's comments come as Britain formally weighs up whether to accept the U.S. invitation to participate in its \$26m research programme to devise an anti-missile defence.

Computing is high on the list of research areas that the programme intends to promote. Advanced technologies such as high-speed processing and novel software techniques would be essential in several tasks associated with an anti-missile defence, for example in interpreting information from radar scanners about incoming missiles and in directing beam weapons.

The U.S. Defense Department has asked Britain, together with other U.S. military allies, to come up with suggestions on how it could share research on the project, more formally known as the Strategic Defence Initiative (SDI).

# Falklands airport raises protests

ARGENTINA is expected to make strong diplomatic protests when the new airport at Port Stanley in the Falkland Islands is opened by Prince Andrew later this week. The airport, whose estimated completion cost is £260m, has been designed to give Britain a more flexible and cheaper defence of the South Atlantic islands.

The Government of President Raul Alfonsín has sought over the past 18 months to have Britain halt construction of this strategic facility, arguing that it is a hostile gesture. This point is expected to be made again in a protest note to the United Nations, with a possible call for a vote of censure in the general assembly.

Britain has maintained throughout that the new airfield, which when completed next year will have two runways, is for defensive purposes. It was pointed out this week in Whitehall that Argentina has still not formally declared an end to its state of belligerency. Britain, for its part, maintains a 200-mile protection zone around the islands.

The airport and its installations, which will remain under the control of the Ministry of Defence, enable wide-bodied jets to land on the Falklands. This cuts out the complex and costly air bridge using VC-10s to Ascension Island and then Hercules aircraft, with three in-flight refuellings, to reach Port Stanley.

Britain will be able to have proper all-weather facilities for strike and reconnaissance aircraft, as well as much faster capacity for reinforcement from the UK. Nevertheless, the RAF Tri-Stars will still take up to 19 hours, stopping at Ascension to complete the journey.

This reinforcement capacity will enable a gradual reduction of the existing Falklands troop levels of about 4,500. But officials have warned against the expectation of an early rundown and last week's Defence White Paper policy document was decidedly vague on this.

The paper was also vague about the existing costs of defending the Falklands. Cutting out the air bridge in the first year is expected to save some £10m out of a current cost of nearly £35m. Air bridge savings when the airport is fully operational will be more substantial. Until June the airport will be serviced by two weekly RAF Tri-Star flights. After that, British Airways will operate Boeing 747s under a six-month trial contract out of Brize Norton, Oxfordshire. A two-tier fare system will operate, with a full-rate round trip costing £1,900 and a concessionary rate of £1,050. Islanders can obtain concessionary rates, while all passengers will require a sponsor.

Both the price and the sponsorship requirement, coupled with the very limited accommodation on the islands, will restrict use. Passenger space will also be determined by the amount of freight carried on board.

The Foreign Office has received a number of inquiries from specialised UK and U.S. tour operators, but no decisions are likely to be taken until the second runway is complete in February 1986. The British Government would like to be able to operate the service through a Latin American country to make the journey easier, but this is recognised to be diplomatically delicate.

In addition to the possibility of opening up the islands, the new airport focuses attention on access to Antarctica and this is perhaps the greatest long-term change that will result. Ecological groups have already voiced fears that this will encourage governments and international companies to think more of the commercial possibilities of Antarctica. A further fear is that the region, demilitarised by the Antarctic

Britain is about to open a new airport on the Falklands to improve the defence of the islands. But Argentina protests that it is a hostile gesture. Robert Graham, Latin American Editor, reports

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Union, Japan and Spain, followed by Poland, East Germany, Bulgaria, Taiwan and Panama. During 1984 the average daily number of fishing vessels was between 40 and 60; now the number is believed to be close to 70 on occasions.

The British Government has no naval vessels specifically for fisheries protection in the area and there is concern among ecological groups and British MPs that "plunder" is taking place in a free-for-all. British officials concede they have no precise ideas of the catch.

Two months ago the Argentine Chamber of Fishing Boat Owners added its voice, claiming that the number of fishing vessels in the area had quadrupled since the war. No Argentine "fishing boat" has been allowed to enter Falklands waters since President Alfonsín took office in December 1983. (During the military regime fishing boats were often used by the navy for intelligence purposes or simply for provocation.)

The fishing industry in Argentina, now under civilian control, has tended to be pragmatic and has not minded the increase in foreign fishing vessels in the South Atlantic because they have been allowed to refuel and repair in Argentine ports, so generating foreign exchange.

The British Government is sufficiently concerned about the prospect of over-fishing and by the difficulties of imposing a 200-mile territorial zone that it has begun a novel diplomatic approach. In March, Sir Geoffrey Howe, the Foreign Secretary, told the House of Commons that soundings were being made with various countries on a voluntary multilateral agreement. Among the countries sounded out have been Spain, Japan and the Soviet Union.

The UK Government realises that, for any agreement to be effective, it will require the overt or tacit inclusion of the Argentine Government. The main fishing fleets come from countries which support Argentina's sovereignty claim.

Treaty, will become militarised as a result of the airport.

In Argentina the military and politicians believe the airport has given an important strategic dimension to the Falklands and that Britain will be even more reluctant to consider discussion on sovereignty. British officials admit that the Falklands do now possess a new strategic asset with large amounts of taxpayers' money invested.

The airport does not help to solve the most immediate and pressing problem facing the British Government over the Falklands. This is the question of fishing and fish resources around the Falklands. These waters are exceptionally rich in marine life, especially krill, squid and small hake.

The potential of this resource was highlighted by the Shackleton Report well before the 1982 war. In Lord Shackleton's revised study, compiled after the war, this was again emphasised as the main potential source of income for the islands.

The Falkland Islanders have been pressing the British Government for almost two years to declare a 200-mile territorial zone and institute a licence system - a system which could provide on conservative estimates \$5m a year in licence fees. The British Government has so far refused to make this move, afraid that it would further complicate any reconciliation process with Argentina.

In the absence of any move by the British Government, the main fishing fleets of the world have stepped in to take advantage of what is one of the last areas that offers uncontrolled access to catches. These fleets have been the Soviet

Union, Japan and Spain, followed by Poland, East Germany, Bulgaria, Taiwan and Panama. During 1984 the average daily number of fishing vessels was between 40 and 60; now the number is believed to be close to 70 on occasions.

The British Government has no naval vessels specifically for fisheries protection in the area and there is concern among ecological groups and British MPs that "plunder" is taking place in a free-for-all. British officials concede they have no precise ideas of the catch.

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## UK stand over Ford 'aid'

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BRITAIN would strongly object if the West German authorities attempted to offer Ford special financial inducements to make major new investment at Cologne rather than Dagenham, Mr John Butcher, industry minister, said yesterday.

He was replying to a letter from Mr Bryan Gould, labour's trade spokesman, who had referred to reports that Ford unions were convinced that Dagenham had been selected in preference to Cologne as production site for a "family" of 2-litre engines in which the company is investing £100m.

Suggestions that the project will go to Britain have been so strong that the state government of North Rhine-Westphalia, which covers the Cologne area and faces an election this month, has been attempting to put together a financial aid package attractive enough to persuade Ford to change its mind.

Mr Butcher said yesterday the British Embassy in Bonn and Con-

sulate General in Düsseldorf were "making it plain to the relevant German authorities that we would expect Ford to be left to make its decision on straightforward commercial grounds."

He added: "Cologne does not appear to be an area qualifying for regional aid and we would expect any proposed aid to be notified to Brussels (the European Commission) where we would raise strong objections to that aid being granted."

The U.S. Defense Department has asked Britain, together with other U.S. military allies, to come up with suggestions on how it could share research on the project, more formally known as the Strategic Defence Initiative (SDI).

# Georgia Pacific to spend £8m on Inveresk paper offshoot

BY TONY JACKSON

GEORGIA PACIFIC, the U.S. forest products company, is to receive investment of £3.25m. The mill produces coated card and board, and capacity will be increased from 25,000 tonnes to 33,000 tonnes. The remainder will be spent on the Caldwell's Mill, in Fife, and at the St Cathar's Mill, in Somerset, to upgrade the paper-making machines and introduce computerised manufacturing controls.

Inveresk, acquired by Georgia Pacific in 1981, has been loss-making in recent years. Last year, three of the company's mills were closed, and by the beginning of this year Inveresk had moved to break-even at the trading level.

Of the £8m investment, the largest share, £3.25m, is to be spent at the Westfield Mill, near Bathgate in Scotland. The mill is Europe's only dedicated producer of paper labels, and the investment will increase capacity from 14,000 tonnes per year to 24,000 tonnes in 1985.

The Carronvale Mill, at Denny, near Glasgow, is to receive investment of £3.25m. The mill produces coated card and board, and capacity will be increased from 25,000 tonnes to 33,000 tonnes. The remainder will be spent on the Caldwell's Mill, in Fife, and at the St Cathar's Mill, in Somerset, to upgrade the paper-making machines and introduce computerised manufacturing controls.

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three mills and decided to sell the remainder.

Now, however, dollar strength and the weakening in world pulp prices have caused Georgia Pacific to think again. In addition, the U.S. group is greatly expanding its paper capacity, with one paper machine - claimed to be the world's largest - due on stream in autumn next year. In addition to being a customer for Georgia Pacific's pulp, Inveresk is seen as an outlet for the U.S. group's paper products through its European sales network.

The development is seen as part of a general recovery now taking place in the UK paper industry. Since the late 1960s, when the industry ceased to be protected from import competition by tariff barriers, the trend in production and profitability has - with a few notable exceptions - been steadily downhill.

In 1983, however, GP had undertaken a review of its underperforming assets worldwide, including Inveresk, and as a result had closed

## Small brokers seek slower pace of reform

By John Moore, City Correspondent

A COMMITTEE of small stockbrokers is seeking a meeting with the London Stock Exchange ruling council in an effort to slow down the pace of reform in the British securities market.

Mr Martin Walters, a member of the committee and a partner with Schaverein the stockbroker, said yesterday that the committee hoped that proposals to dismantle minimum scales of commissions on transactions carried out in the stockmarket and the establishment of firms which can act as both principals and agents would not come in force until the end of 1988.

Under an arrangement with the Government, the stock exchange has agreed to abandon its minimum scales of commission by the end of 1988 in a series of reforms which will allow stockbrokers to act as market makers. The stock exchange hopes to implement the reforms by October next year.

Mr Walters said that the stock exchange reforms were being "rushed along at breakneck speed" with little regard for the implications. Unless the stock exchange slowed down the rate of reforms a "no" vote to the changes at a June 4 meeting would be urged by the committee, he said.

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# ESSELTE

AKTIEBOLAG

## Notice of Annual General Meeting

Notice is given to the shareholders of Esselte Aktiebolag that the Annual General Meeting of the Company will be held at 4.30 p.m. on Thursday, May 23rd, 1985 at the offices of the Company at Sundbybergsvägen 1, Solna, Sweden.

In addition to the matters to be dealt with at the Annual General Meeting in accordance with the Swedish Companies Act and the Articles of Association, a resolution will be proposed to the Annual General Meeting to authorize the Board of Directors to issue convertible bonds and/or bonds comprising options to subscribe for new shares in the Company without first offering any of such bonds to the existing shareholders in accordance with the 5th Chapter 2nd Section of the Swedish Companies Act.

The Board of Directors will also propose a resolution that the record date by which shareholders in the Company must be registered by VPC in a register of shareholders or a list maintained in accordance with the 3rd Chapter 12th Section of the Swedish Companies Act in order to participate in the dividend authorized by the Annual General Meeting will be Wednesday, May 29th, 1985. Should the Annual General Meeting adopt this resolution the date for dispatch of dividends by VPC to those shareholders who are registered with VPC on the record date is estimated to be Wednesday, June 5th, 1985.

In order to be entitled to participate in the Annual General Meeting a shareholder must have been registered with VPC not later than Monday, May 13th, 1985. A shareholder who has had his/her shares registered in the name of a nominee must have temporarily registered those shares in his/her own name with VPC not later than Monday, May 13th, 1985 in order to be entitled to vote at the Annual General Meeting.

Further, in order to take part (whether in person or by proxy) in the Annual General Meeting, a shareholder must give notice to the Company not later than 4.00 p.m. Monday, May 20th, 1985, in writing to Esselte AB, Box 1371, S-171 27 Solna, Sweden, or by telephone: Stockholm 27 27 60. If by the aforementioned time a shareholder has provided the Company with a power of attorney, giving authority to exercise the voting rights of the shareholder at the Annual General Meeting in accordance with the 9th Chapter 2nd Section of the Swedish Companies Act, the shareholder shall be deemed to have duly given notice for participation in the Annual General Meeting.

Solna, May 2nd, 1985  
Board of Directors.

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A computer?



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**The first assistant for secretaries.**

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## UK NEWS

# Britain falling behind in 'scholarship diplomacy'

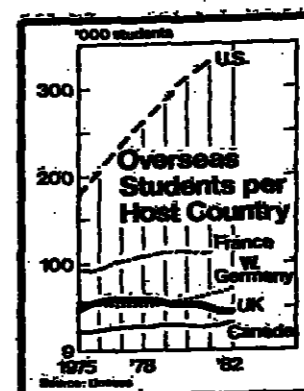
BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

BRITAIN is falling behind the rest of the world in terms of its share of overseas students. This is undermining the UK's prospects in the developing world, the British Council said in a report published today. Whereas other countries, both western and communist, are increasing their political and economic influence by so-called "scholarship diplomacy", Britain's overseas student population has declined by 37 per cent since 1979-80.

The number of foreign students in Britain declined from 88,037 in 1979 to 55,608 in 1984. At the same time, West Germany, without a Commonwealth and without a language as widely spoken as English, accommodated 66,000 overseas students at a cost of £400m a year.

France, the British Council maintains, had a foreign student population of 100,000 and ran a special scholarship system for students from important raw material and energy-producing countries and from countries which were potentially important markets for the French economy.

The number of overseas students in the Soviet Union, too, continued to increase, from more than 50,000



in 1978 to 82,500 in 1983. The Eastern bloc countries as a whole were spending an estimated \$1bn on more than 100,000 overseas students in 1982, more than half of them from developing countries.

Mr Derek Beard, the assistant director-general of the British Council, said that the latest figures were bad news for "a country which prided itself on the international reputation of its higher education."

About 1m people were studying overseas in the world and the number was increasing by 14 per cent a year, Mr Beard said.

Between 1970 and 1981 Britain's market share fell by more than 25 per cent and was still falling, Mr Beard said.

Mr Beard underlined the special effort that Japan and the U.S. were making to attract students in the Pacific basin. Japanese education and foreign policy in the 21st century would focus on overseas students because "they act as an important bridge for the development of friendly relations between their countries and Japan."

The Pacific basin was the most rapidly developing region in the world and China, Indonesia, Korea and Malaysia were likely to be the new industrial giants and major markets of the next century. The number of students from these countries studying in the U.S. had recently increased faster than those from any other country.

The number of Chinese students in the U.S. had jumped by 31 per cent between 1982-83 and 1983-84, while those coming to Britain had increased by only 6 per cent.

## Rail freight losses absorb £66m from sale of Sealink

BY SUE CAMERON

LOSSES INFLICTED ON British Rail's (BR) freight business by the year-long miners' strike have absorbed the entire £66m raised by the sale last year of BR's Sealink subsidiary.

State-owned BR has admitted that it has just been forced to revise upwards the overall losses caused by the strike from a total of £240m to £253m. Almost all of the additional £13m is blamed not on the miners' strike itself but on sympathetic action for the miners by BR's own workforce. BR's freight section accounts for by far the largest chunk of the total loss figure.

Sealink, the harbour and ferry subsidiary of BR, was sold last summer to British Ferries, part of the Sea Containers Group. The sale, which will bring in a total of £88m net for BR, was part of the Govern-

ment's policy of selling state assets to the private sector.

Payment for Sealink was agreed in two tranches. BR has already received £40m - and all of that money has gone to meet losses in the rail freight sector. The other £28m is due to be paid in July of this year. It is already allotted to pay off more of the losses caused by the pit strike.

Before the start of the pit strike BR was in a position to put £100m a year on the money markets and earn interest from it. Its freight sector was on target to make £38m operating profit - equivalent to a 5 per cent return on assets on a current cost accounting basis - by 1988-89.

Then came the miners' strike. Coal still accounts for some 60 per cent of the rail freight operation's £560m a year turnover.

BR's latest figures, prepared for its chairman Mr Bob Reid, last week, show that losses arising directly from the pit strike amounted to £182m. A further £71m revised upwards from an earlier figure of £60m, were "self-inflicted" by railwaymen who took sympathetic action in support of the miners' claim.

BR was forced to call in the £100m a year it had invested to borrow a further £100m. The proceeds from the Sealink sale - which could otherwise have been invested in BR's own business - have all been eaten up by the cash-hungry freight sector.

Management at BR estimates that the total cost of the miners' strike is adding an extra £29m to its net annual interest burden.

For the Kenyatta Conference Centre in Nairobi, Karl Henrik Nostvik was asked to design a complex which would echo the spirit of the African people, and also (because of high volcanic activity) meet the earthquake requirements laid down in California - the strictest in the world.

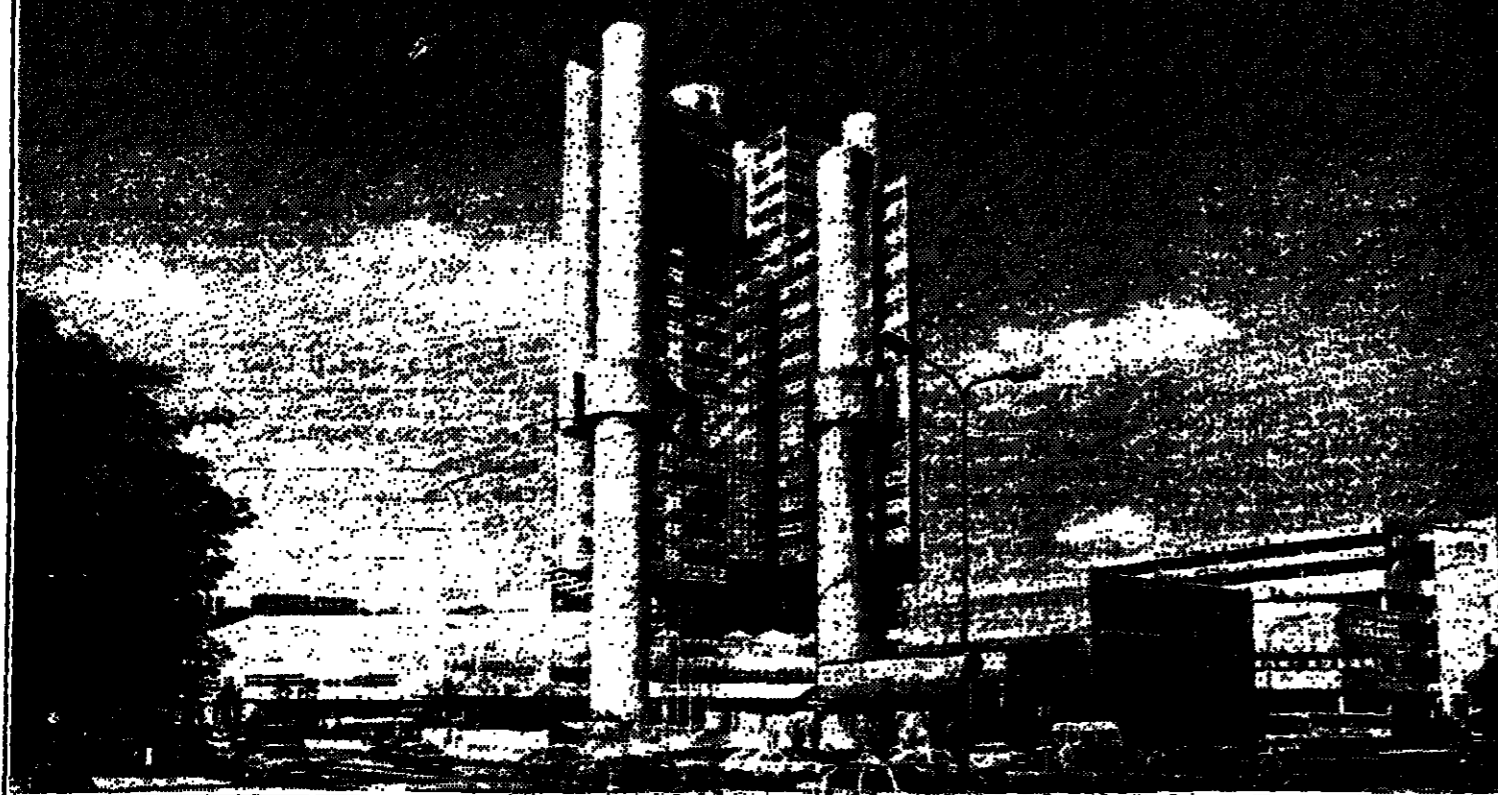
The centre consists of a circular amphitheatre - inspired by traditional African houses - a plenary hall - for up to 4000 delegates - and a 24-storey tower block. For the lighting, we basically applied fluorescent lamps throughout, diffused by wooden louvres, made of local timber.

We have also been requested to redesign and install the sound equipment, including separate multi-lingual conference and interpretation systems for the Plenary Hall, the Amphitheatre and other conference rooms.

In Munich, the Hypo-Haus, head-office for the Bayerische Hypotheken- und Wechsel-Bank, was designed by Walther and Bea Betz.



## The Kenyatta Centre in Nairobi and the Hypo-Haus in Munich - two landmarks to our expertise.



The building - prism-shaped structures suspended between four cylindrical shafts - is a striking landmark.

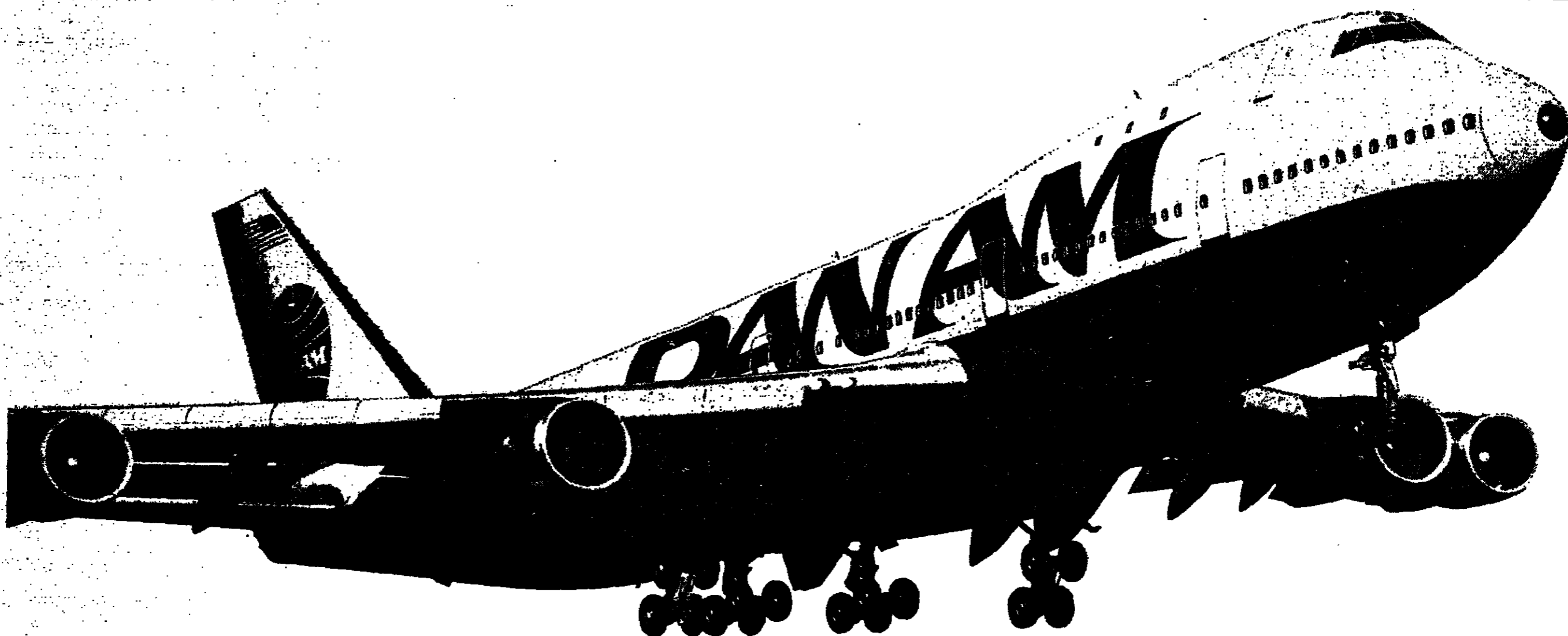
The lighting and air-conditioning for this 26-storey office building demanded extensive discussions and month-long laboratory measurements. The result was the design and installation of some 7000 tailor-made air-handling louvred luminaires, for the integrated lighting and air-conditioning system.

An additional problem was that the height of the luminaires was restricted to just 85 mm.

Other landmarks to our expertise include Singapore's Raffles City project, the Palais des Festivals in Cannes, and the Banco Central in Ecuador. For more information, write to the Philips organization in your country or to Philips, VOA-0217/FT16, Eindhoven, the Netherlands.

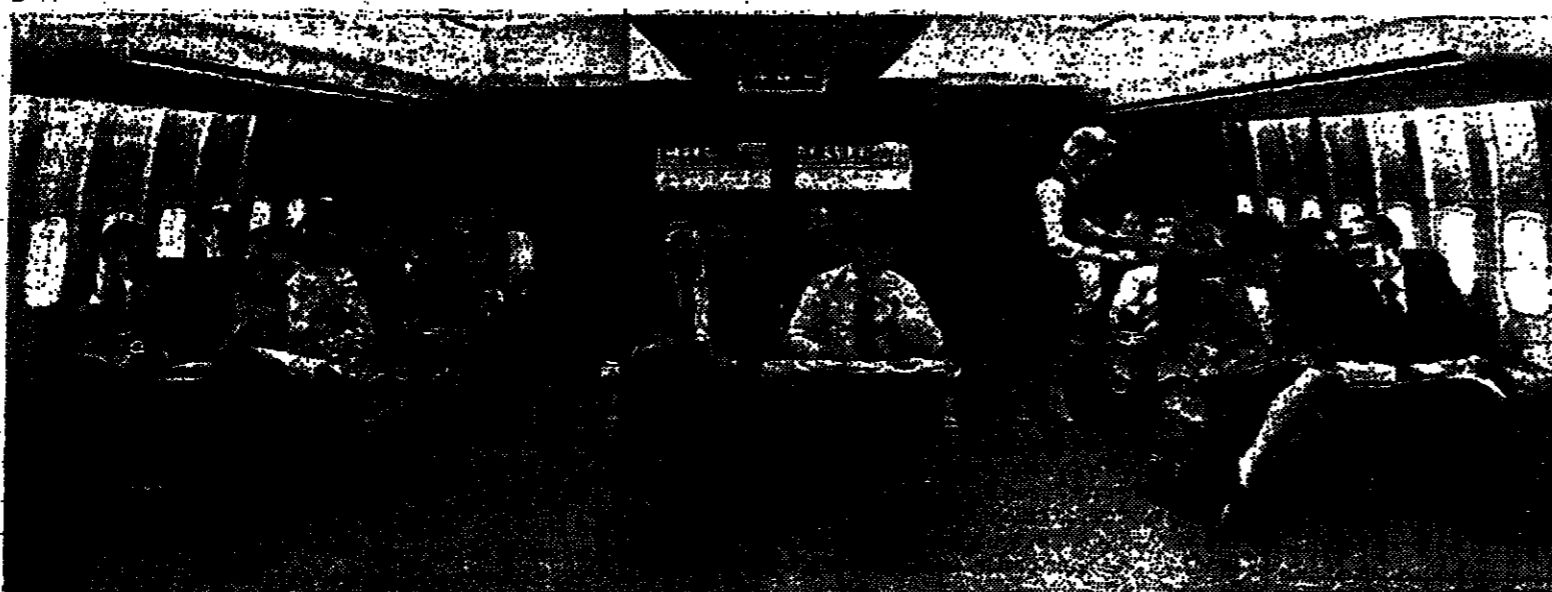
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## FT COMMERCIAL LAW REPORTS

## Tax avoidance practice excludes shipowners from arbitration

WHERE A person takes a charter from shipowners and, acting in his genuine capacity as a disponent owner, lets out the ship on sub-charter, the shipowners cannot enforce the sub-charter as undisclosed principals in that in such circumstances there is no principal/agent relationship between them and the disponent owner, and use of the description "disponent owner" is inconsistent with agency.

The Court of Appeal so held when allowing an appeal by Rocco Giuseppe Fidi SNC and others, charterers of the *Astyanax*, from a decision of Mr Justice Leggatt ([1984] 2 Lloyd's Rep 499). The judge had granted a declaration to the shipowners, *Astyanax* Maritime Co Ltd, that they were entitled to arbitrate to enforce a charterparty against the charterers, notwithstanding that the party with whom it was concluded, as "disponent owner," was Mr Panagiotis Stravelakis, an employee of the ship's managing agent.

LA "disponent owner" is a person, other than the true owner, who is entitled to dispose of a vessel.

LORD JUSTICE KERR giving the judgment of the court, said that the *Astyanax* was owned by a company registered in Cyprus.

One of its two directors and its managing agent was Captain Stravelakis, a Greek citizen. The vessel's managing agent was a company registered in Panama, which was controlled by Captain Stravelakis. His cousin, Mr Panagiotis Stravelakis ("Mr Panagiotis") was employed in its chartering department. A chartering fixture was made for the carriage of grain from Argentina to Italy. The charterers were Italian. The fixture resulted from a number of telexes which passed between the parties' brokers in 1979. Mr Panagiotis was named on the owners' side as the party with whom the fixture was concluded, under the description "disponent owner." The reason for his insertion was to avoid a 4.5 per cent Argentine tax on freight. The tax was payable unless the beneficiary of the freight was taxable in a country with which the Argentine had a double taxation agreement. That was so in the case of Greece and Italy, but not Cyprus or Panama. Since Mr Panagiotis was a Greek citizen it was decided to enter him in the charter as "disponent owner." A similar practice had been adopted by the owners on a number of occasions. In the case of a Greek

national it would be done by presenting to the Argentine Embassy in Athens the voyage charter showing him as disponent owner, and a time charter from the registered owners to him as charterer. Shortly after conclusion of the voyage charter, the charterers repudiated the fixture because they found that due to the vessel's age and history they could not insure the cargo on acceptable terms. The shipowners thereupon instituted arbitration proceedings and appointed an arbitrator. The charterers challenged his jurisdiction. He formed a preliminary view that he had jurisdiction to decide the disputed issues between Mr Panagiotis and the charterers, and refused the owners' application to be joined as claimants. The owners claimed a declaration that they were entitled to enforce the fixture by arbitration against the charterers. Mr Justice Leggatt disagreed with the arbitrator and made the declarations claimed. The charterers appealed. The issue was whether the owners were entitled to enforce

the fixture as undisclosed principals of Mr Panagiotis. It raised two main questions: first, whether on the basis of the telex exchanges Mr Panagiotis contracted as principal; secondly, whether the owners were precluded from contending they were undisclosed principals because their purpose throughout was to avoid tax. The telex exchanges showed that what was contemplated was a sub-chartering arrangement—a time charter between the registered owners and a Greek charterer who would then conclude the fixture in his own name. Mr Milson for the owners submitted that in so far as the charterers were saying that the insertion of Mr Panagiotis into the chartering arrangement had been done for an illegal purpose, that part of the contract could be severed. That submission was wholly untenable. No authority was cited in support of it. If and in so far as the fixture was affected by illegality, there could be no basis for eliminating any terms inserted for an illegal purpose. Mr Milson's second submission was that the parties' intention

was that Mr Panagiotis was merely to contract as "disponent owner" in *locus*, and not on the basis that he would enter into a time charter. Again the submission was not accepted. The negotiations showed perfectly clearly that the understanding and intention of both parties was that Mr Panagiotis would conclude a head time-charter with the owners and that it was on that basis that he would appear as "disponent owner." If he was a charterer from the registered owners, then Mr Panagiotis could not have contracted merely as agent on their behalf. The result was that they could not contend they were entitled to enforce the voyage charter as undisclosed principals. If the fixture charter was a mere sham, but that was not supported by the evidence. The common law doctrine of undisclosed principal entitled an unnamed and undisclosed third party to sue and be sued on a contract in certain circumstances. But a number of conditions must be satisfied before it could apply. One requirement was that at

the time of the contract, there must be an actual and subsisting principal/agent relationship pursuant to which the contract was made by the agent with the other contracting party. Another requirement concerned the relationship between agent and contracting party. If the terms of the contract in the circumstances were inconsistent with agency because they showed that the agent was in fact acting or purporting to act as principal, then the doctrine of intervention was excluded. In *O/Y Wasa Steamship [1949] 82 Lloyd's Rep 936* managing agents had express authority to charter out on behalf of shipowners. They did so under a charter in which they were described as "disponent owners." A letter was attached expressly describing them as managers for the owners. There it was submitted that the owners could not enforce the charter as undisclosed principals because their claim was inconsistent with the description as "disponent owners." Not surprisingly, the submission was rejected. The managers had in fact contracted

as agents, and their description as disponent owners was not necessarily inconsistent with agency. That appeared to be the only reported case of chartering out as "disponent owner" where the person was in fact only an agent, and not the charterer under a head charterparty. In the present case the surrounding circumstances and the course of negotiations clearly showed that it was intended that Mr Panagiotis should conclude a time charter with the owners, and was described as "disponent owner" on that basis. That was inconsistent with his contracting in the capacity of a mere agent and as a result the owners could not contend that they were in fact undisclosed principals. There was no intended principal/agent relationship between the registered owners and Mr Panagiotis. There was a relationship based on trust but that could not alter the formal legal relationship between the parties intended to create.

Mr Justice Leggatt concluded that Mr Panagiotis was no more than a "nominal intermediary" in the voyage charter was concluded, at any rate for the purposes of the arbitration.

approach. The function and status of Mr Panagiotis were intended by all parties to be and to remain the same throughout. It would be artificial commercially and unjust to accept the owners' contention that he was a mere nominee. He was inserted into the transaction as an intended genuine principal for a clear commercial purpose which was shared by all parties concerned. It was not open to the owners to contend the contrary in the face of the evidence. They could not have it both ways. Since they asserted that the time charter was intended to be a genuine contract and not a mere sham designed to deceive the Argentine authorities, they could not claim that Mr Panagiotis was merely a nominee. The owners' contention that they were entitled to enforce the voyage charter failed on the ground that they could not claim to have been undisclosed principals of Mr Panagiotis. Appeal allowed.

For the owners: David Milson (*Horrocks and Co.*)  
For the charterers: Iain Milligan (*Middleton Potts and Co.*)

By Rachel Davies  
Barrister

# The Royal Bank of Scotland Group plc

## RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 1985

SUMMARY OF KEY FIGURES (unaudited)	6 months ended 31.3.85	6 months ended 31.3.84	12 months ended 30.9.84
PROFIT BEFORE TAXATION	£75.9m	£56.8m	£131.3m
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	£42.1m	£38.1m	£97.5m
EARNINGS PER 25p ORDINARY SHARE	17.8p	16.1p	32.0p
DIVIDEND PER 25p ORDINARY SHARE	3.6p	3.3p	8.5p

## GROUP PROFIT

The directors of The Royal Bank of Scotland Group plc report the following results for the six months ended 31 March 1985

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (unaudited)

	6 months ended 31.3.85	6 months ended 31.3.84	12 months ended 30.9.84
£m	£m	£m	£m
<b>OPERATING PROFIT</b>			
The company and its subsidiaries (Note 1)	87.7	61.1	145.6
Share of profits of associated companies	3.4	7.8	13.7
	91.1	68.9	159.3
Interest on loan capital	(15.2)	(12.1)	(28.0)
<b>PROFIT BEFORE TAXATION</b>	75.9	56.8	131.3
Taxation (Note 2)	(33.5)	(20.0)	(58.3)
<b>PROFIT AFTER TAXATION</b>	42.4	36.8	73.0
Minority interest	(0.2)	(0.3)	(0.5)
	42.2	36.5	72.5
Preference dividends	(0.1)	(0.1)	(0.1)
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	42.1	36.4	72.4
Extraordinary items (Note 3)	—	1.7	(152.6)
Transfer from reserves	—	—	177.7
<b>PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS</b>	42.1	38.1	97.5
Ordinary dividends	(10.2)	(7.5)	(19.3)
<b>RETAINED PROFIT</b>	31.9	30.6	78.2
<b>EARNINGS PER 25p ORDINARY SHARE</b>	17.8p	16.1p	32.0p

The profit and loss account for the twelve months ended 30 September 1984, included above, is an abridged version of the company's full accounts for that period which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report.

## NOTES

1. OPERATING PROFIT  
The amount charged against operating profit in respect of bad and doubtful debts comprises:

	6 months ended 31.3.85	6 months ended 31.3.84	12 months ended 30.9.84
Specific	22.3	14.4	33.1
General	4.3	2.8	5.4
	26.6	17.2	38.5

2. TAXATION  
The charge for taxation is based on a UK corporation tax rate of 42% per cent, and takes account of deferred taxation on all timing differences other than those considered likely to continue for the foreseeable future.

3. EXTRAORDINARY ITEMS  
The net figure for the year ended 30 September 1984 included a profit on the disposal of our investment in Lloyds and Scottish plc of £24.5m and a provision for corporation tax changes as a result of the Finance Act 1984, of £177.7m which was matched by a transfer from reserves.

4. CURRENT COST ACCOUNTS  
No current cost accounts are included in this statement.

## CONTRIBUTIONS TO PRE-TAX PROFIT

	6 months ended 31.3.85	6 months ended 31.3.84	12 months ended 30.9.84
(Excluding profit on sales of premises)	£m	£m	£m
Domestic	53	51	54
International	17	13	11
Related services	30	35	35

## ANALYSIS OF OPERATING PROFIT

	6 months ended 31.3.85	6 months ended 31.3.84	12 months ended 30.9.84
£m	£m	£m	£m
<b>THE COMPANY AND ITS SUBSIDIARIES</b>			
Interest and investment income receivable	722.9	519.5	1,148.2
Interest payable	(525.5)	(359.5)	(804.8)
Net interest income	197.4	160.0	343.4
Other operating income	72.3	56.5	118.8
	269.7	216.5	462.2
Staff expenses	(83.0)	(85.7)	(170.9)
Premises and equipment expenses including depreciation	(31.4)	(28.9)	(55.7)
Other expenses	(31.8)	(27.8)	(57.9)
	(146.2)	(142.4)	(284.5)
Bad and doubtful debts charge	(28.6)	(17.2)	(38.5)
	(122.8)	(110.7)	(222.8)
Profit on sales of premises	86.9	58.9	140.4
Profit on sales of investments	0.8	1.2	2.0
	87.7	61.1	145.6
<b>SHARE OF PROFITS OF ASSOCIATED COMPANIES</b>	3.4	7.8	13.7
<b>OPERATING PROFIT</b>	91.1	68.9	159.3
Average base rate	11.5%	9.0%	9.4%
Average margin between base rate and retail deposit rate	3.0%	3.5%	3.4%

The unaudited profit before taxation for the six months ended 31 March 1985 amounted to £75.9 million, an increase of £19.1 million or 34 per cent over the corresponding period last year. Against the background of an increased capital base mentioned below there has been an encouraging increase in earnings per ordinary share from 16.1p in 1984 to 17.8p.

The principal factors contributing to this increase were continuing higher net interest earnings plus increased commission and fee income. Offset against this there was a modest increase in costs and a higher amount has been provided for bad and doubtful debts.

The increase in net interest income was due almost entirely to growth in business and whilst the average base rate rose from 9 per cent to 11.5 per cent the average margin between base rate and retail deposit rate dropped by 0.5 per cent. Despite this growth in business, costs have been contained and show an increase of only 11 per cent over the same period last year.

The increase in the bad debt provision has been caused mainly by the continuing difficulties being faced by small companies in the UK and the continuing recession in worldwide shipping business. As stated last year the improvement in the general economic environment in the UK remains patchy and the medium-term outlook is still uncertain.

On 8 February 1985 the Group acquired Charterhouse Japhet plc and associated Development Capital Companies, the major part of this acquisition being funded by a one for four rights issue which raised £115 million after expenses. In the last six months the Group also invested £20 million in its own insurance company with Department of Trade and Industry approval.

To fund long-term investments and in particular mortgage lending, the Group has recently completed a twenty year £200 million floating rate note issue at 1/16 per cent over the three month London Inter-Bank Offered Rate. Of this amount £100 million was drawn down on 2 May 1985 and the remaining £100 million can be issued at any time in the next two years.

Last year reserves were depleted by the effect of the Finance Act 1984 which changed the treatment of deferred taxation relating to leasing business but the proceeds from the increase in share capital, the floating rate note issue and increased earnings have more than restored the Group's capital ratios.

The directors have declared half year dividends on the 11 per cent and 5% per cent cumulative preference shares at the rate of 3.85 pence and 1.925 pence respectively. These dividends will be paid on 31 May 1985 to those preference shareholders registered on 10 May 1985.

Despite having increased our issued share capital by the one for four rights issue in February the directors have declared an interim dividend on the ordinary shares for the year to 30 September 1985 of 3.6p per share compared with 3.3p per share on the old capital base. This interim dividend will be paid on 1 July 1985 to those ordinary shareholders registered on 31 May 1985.

## COMMENTS

Following the record profit achieved last year, this further substantial increase at the interim stage is very pleasing, especially as this is the last time we expect to produce profit figures under our existing structure. Our Parliamentary Bill to achieve the merger of our two operating Clearing Banks is now before the House of Lords and we plan to merge the two banks on 30 September, subject to our receiving Royal Assent in the Summer.

When the Monopolies and Mergers Commission decided three years ago that we should remain an independent bank, we were determined to prove that we had both the ability and the determination to carve out our own future. We have restructured ourselves in a sensible, economical and competitive way, to take the Group forward into the late eighties and nineties. This has entailed a total reorganisation, involving a considerable amount of senior management time, but a reorganisation that we are confident will have a marked effect in the years ahead, not only improving our earnings but also strengthening our balance sheet.

Over the last three years we have achieved a major increase in our customer base. The impact of free banking and the very personal service we provide, has led to an increase of 50 per cent in our personal current accounts in England and Wales.

We have launched a new car insurance service, using high technology and breaking new ground in what we are convinced will be a profitable venture. Other insurance services will be processed through our new computer centre in due course.

We have sold our shareholding in Lloyds and Scottish at a substantial profit. We have acquired the Charterhouse Group, financing the purchase by a successful rights issue.

We have a strong balance sheet, strong capital ratios and a market capitalisation in excess of £800 million — a figure which enables us to claim that we are now truly one of the Big Five. After September, we shall be the first real national bank, with a network of almost 900 branches from the North of Scotland to the South of England, and a fully-integrated computer system.

The Board is determined that the new Royal Bank of Scotland will remain an independent, outward-looking UK bank, headquartered in Edinburgh, with at the same time a substantial operation in London.

We have a first-class management team, as is evidenced by our accomplishments during the last few years. We are determined to maintain the momentum which we have achieved since 1982 and consequently the prospects for our shareholders, our customers and our staff in the years ahead are bright.

Michael Herries  
Chairman

The Royal Bank of Scotland plc Williams & Glyn's Bank plc

## TECHNOLOGY

## Software maketh machine

Alan Cane reports on Microsoft's latest

**VISCALC MADE** the Apple II, Lotus 1-2-3 made the IBM PC—and Apple had been hoping that "Jazz" would make the Macintosh.

The practice of buying a particular professional personal computer because it is able to run a certain piece of software has been a feature of the micro-computer business since its early days.

So there were shudders in Apple's executive offices recently when it became obvious that Jazz was going to come in late.

The fact is that although microcomputers are the most versatile personal executive tools ever invented, most people use them in very limited ways.

Accountants and other financial specialists found electronic spreadsheets a boon hence the success of Visicalc, the first of the spreadsheet.

Writers needed word-processing software hence the success of Wordstar.

And both wanted to be able to switch easily from one kind of operation to another, so guaranteeing the success of 1-2-3.

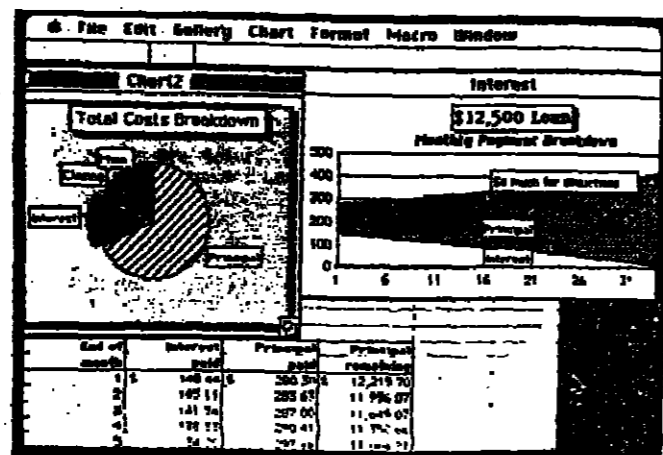
So why the dismay over the late appearance of Jazz? This program, written by Lotus, is the equivalent of 1-2-3 for Apple's Macintosh computer.

Apple's innovative "user-friendly" features have been well documented but which has so far failed to make a real impact in the business world.

So Apple was hoping Jazz would turn out to be the key that would unlock corporate doors for its new machine, and hence its disappointment when Lotus was forced to delay the launch of Jazz for a few weeks.

In the meantime, Microsoft, a major software company which wrote the operating software PC/DOS for the IBM PC, has launched a new piece of software which might just do the trick for Apple.

The software, called "Excel,"



An example of screen windows on Microsoft's Excel

is a spreadsheet, pure and simple, but of magnificent proportions. It provides a matrix of 256 columns by 16,384 rows together with advanced features including the ability to view and reference multiple worksheets on-screen, consolidate and link worksheets and ask "what-if" questions about a number of business situations simultaneously.

And it is designed to work with the Macintosh and take full advantage of the Macintosh's screen icons (little pictures indicating functions), multiple windows on the screen and the "mouse," the hand-help pointing and operating device.

It is clearly one of the most powerful spreadsheets ever devised, considerably in advance of Microsoft's own Multiplan spreadsheet which runs on the IBM PC and the Macintosh.

The puzzle is why Microsoft should have chosen the Apple Macintosh as the launch vehicle for such an important new program.

Microsoft has been involved with the development of the Macintosh since the very beginning and written most of the available software which runs on it, but its stake in IBM/PC type software is even greater and the chances of success with an IBM product much more certain.

After all, there is no guarantee that the business community will ever accept the Macintosh approach as standard.

The answer seems to be tied up with a Microsoft product "Windows" which is even more delayed than Lotus's Jazz.

Windows will make it possible for the user to view several different programs on a single screen at the same time. Unfortunately, since it was announced Microsoft has been unable to bring it to market, chiefly, it seems because Mr William Gates, Microsoft's chief executive is not yet convinced it is up to Microsoft's high standards.

Excel is designed to run in a "Windows" type environment; if Microsoft Windows is not available, Macintosh windows will clearly do just as well.

But now that "Windows" is within weeks of release, expect a version of Excel for die-hard IBM users.

Excel costs £395; available in the U.S. in September.

## Robot they gave a Whirl

By Geoffrey Charlsh

NOW THREE years old, R & D Projects of Nine Elms in London has finished development of its first products—a machine tool controller and a robot—and is moving into the much more difficult marketing stage, where it faces the massed might of the Japanese, Americans and Swedes.

Run by Mr Frank Green, who used to be with Alfred Herbert, the company was set up in April 1982 to exploit ideas emerging from Imperial College.

An early move in August 1983 was to sign an agreement with Thorn EMI under which the electronics giant would manufacture and sell the continuous path robot designed by RDP. But in the re-organisation at Thorn EMI earlier this year, the programme with the research company was terminated—neither side will say why—so that RDP is looking for another partner to provide additional funding and to undertake marketing.

The robot, which can move 35 kg loads through complex continuous paths, has trunk, shoulder, elbow and wrist and can move in a 180 degree arc in an "over the shoulder" action. As a result, the robot's reach from one side to another, is 3,650 mm (about 12 ft). Given the 350 degree rotation of the trunk, the total working volume is more than 26 cubic metres.

The robot is also fast. In the plane of the arms the maximum speed is 2.5 metres/sec with a load of 35 kg. The repeatability is claimed to be better than plus or minus 0.1 millimetre.

The robot can be programmed from a console or from a teaching pendant, using a multi-microprocessor computer system designed at RDP down to printed board level. The company has also developed a new robot language called Whirl (standing, rather grandly, for "world high-level interpretive robot language").

No price has yet been disclosed for the machine, largely because outlets have not been finalised. But it seems likely to be in the £50,000 to £60,000 region.

Rather nearer to the market place is the company's colour screen-based machine tool controller which was partly financed by Prutech, venture capital associate of the Prudential group. This is to be sold through M and G Machine Tool Servicing of Birmingham (021 328 4646).

One aim of the device is to revitalise the 400 or so Batch-



RDP's new 35 kg capacity robot which is likely to cost £50,000 to £60,000

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## SYSTEMS DESIGNERS

The 1984 Annual Report and our new company brochure are now available. If you would like a copy of either, write to Systems Designers (PR/16), Pembroke House, Pembroke Broadway, Camberley GU15 3XD, or ring Camberley (0276) 888200 and speak to Jayne Laird or Lorraine Stilwell.

## Statue of Liberty's Nasa secret

A SPIN-OFF from the U.S. space programme is contributing to the massive effort to clean up the Statue of Liberty. Corrosion protection for the statue is being provided by a mixture known as K-Zinc 531, which was originally developed to protect gunties and other structures at America's main space-launch site at the Kennedy Space Center in Florida.

The chemical was developed by workers at the Goddard Space Center in Washington, DC, one of several bases operated by the National Aeronautics and Space Administration. It is now sold by Inorganic Coatings of Malvern, Pennsylvania.

The mixture contains water, zinc dust and potassium silicate. The latter enables the coating to bind to steel structures in just 30 minutes, creating a hard ceramic finish.

The company is also about to start a new manufacturing consultancy operation called Technical Services, which will draw on its experience in control systems and robotics.

The idea is to assist companies needing to develop complete axis control systems including software. The service will also offer a problem-solving facility that will provide answers ranging from the supply of individual programmable control boards through to the design of controllers and the supply evaluation and proving of total hardware/software packages.

RDP is at Tideway Industrial Estate, Vauxhall, London (01-927 0168).

RDP says this is the first of

## Test drive a Mercedes in a simulator

BY JOHN GRIFFITHS

MERCEDES-BENZ has invested DM 25m (\$16.6m) to develop a driving simulator of similar sophistication to those produced by the aerospace industry for commercial pilot training.

Its use extends well beyond assessing driver behaviour, however. It allows mathematically modelled new components for the West German executive car maker's vehicles to be tested, without the components being produced in hard metal. For example, says Mercedes, a whole rear axle concept can be changed, even in the middle of a simulated journey.

The simulator comprises a complete car or truck cab contained in a fully enclosed capsule. The capsule itself is mounted on a network of hydraulic rams which operate three dimensionally. The complete assembly is 7.4 metres in diameter and weighs 4.7 tonnes.

The constantly-changing view presented to the driver is similar to that which he would experience in normal driving, thanks to computers generating 80 images a second. They are emitted by six video projectors across 180 degrees of the capsule's interior.

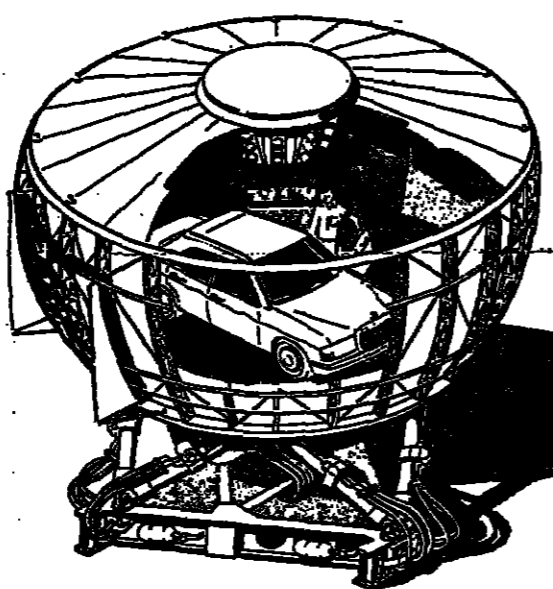
The driver undergoes all the normal sensory perceptions of

driving a vehicle, including the relevant sounds and forces associated with acceleration, cornering and braking.

Differing traffic and accident situations, weather, road surfaces and other road users' behaviour can also be simulated and the reactions of

drivers to such factors as emergencies, bad visibility, stress, tiredness or alcohol can all be assessed.

Mercedes sees the simulator as leading to the amassing of much new information on car and driver behaviour and thus, potentially, improving safety.



## TRANS-NATAL COAL CORPORATION LIMITED

(Incorporated in the Republic of South Africa)  
REPORT FOR THE QUARTER ENDED 31 MARCH 1985  
(Unaudited group results)

	Quarter ended 31.03.85	Quarter ended 31.12.84	Comparative quarter previous year 31.03.84	Nine months to 31.03.85	Twelve months to 30.06.84 (Audited)
Tons sold ('000)	7,228	6,830	6,695	21,030	25,493
GROUP INCOME	R(000) 32,394	R(000) 28,444	R(000) 22,177	R(000) 87,196	R(000) 84,061
NET INCOME before taxation					
Deduct:					
Provision for deferred and normal taxation	17,100	14,366	11,571	44,495	40,975
Outside shareholders' interest	1,367	1,517	1,559	4,796	5,615
NET GROUP INCOME BEFORE SPECIAL TAXATION SURCHARGE	14,837	12,561	9,047	37,905	37,471
Special taxation surcharge (1985 budget proposal):					
Current quarter	2,535			2,535	
Previous quarters	4,110				
NET GROUP INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	8,192	12,561	9,047	31,260	37,471
CAPITAL EXPENDITURE (including mineral rights acquisitions)	17,661	10,082	17,335	58,747	82,013

Notes: Deferred taxation—not included in the income statement. Following the introduction of the new special taxation surcharge of 15%, applicable to mining companies other than gold and diamonds, the deferred taxation liability in respect of prior years has been adjusted by an amount of R14,467 million (1984 R7,690 million)—of this sum R14,314 million (1984 R6,905 million) has been set off against retained earnings and R2,153 million (1984 R0,785 million) against amounts attributable to outside shareholders, brought forward from prior years.

On behalf of the board  
S. P. ELLIS  
G. C. THOMPSON Directors  
Johannesburg, 10 May 1985



## BET

Over the last two years, BET has been implementing a planned programme of acquisitions and disposals so as to concentrate on growth sectors of service industries and build a strong base for future development.

## BET

Acquisition of minority interests in Rediffusion PLC

£121.6 million



Baring Brothers &amp; Co. Limited

May 1983

## BET

Sale of North Sea Oil Interests

£55.8 million



Baring Brothers &amp; Co. Limited

April 1984

## BET

Sale of Rediffusion's Television Rental Business

£120.0 million



Baring Brothers &amp; Co. Limited

June 1984

## BET

Acquisition of Anglian Windows Limited

£33.5 million



Baring Brothers &amp; Co. Limited

September 1984

## BET

Acquisition of minority interests in Advance Services PLC

£6.5 million



Baring Brothers &amp; Co. Limited

September 1984

## BET

Acquisition of Initial plc

£173.2 million



Baring Brothers &amp; Co. Limited

April 1985

Baring Brothers & Co. Limited has assisted BET in the development and implementation of its strategy and advised on all the above transactions.



BARINGS

Baring Brothers &amp; Co. Limited

May 1985

## THE PROPERTY MARKET BY MICHAEL CASSELL

# Stock Conversion emerges from the shadows to face the future

Invest













## FINANCIAL TIMES SURVEY

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prior consultation by the new black councils, created under the 1982 Black Local Government Act.

In a pattern which has since become familiar, the victims came in two categories. The first were those shot by riot police. The second were black councillors, elected a few months earlier at polls boycotted by the overwhelming majority of the black electorate. Their property and even lives have been destroyed by angry mobs who see them as corrupt "sell-outs" and surrogate symbols of white oppression.

Since September, more than 300 people have lost their lives in rioting, police repression and black-on-black violence which

CONTINUED ON PAGE 2

## South Africa

Pressures are growing for the dismantling of apartheid and the creation of a just society: changes have taken place but the Government must go further and faster if a tragedy of considerable proportions is to be averted.

## Difficult days lie ahead

THESE are turbulent and confusing times in South Africa as the National Party Government and a polarised multi-racial society grope with the complexities of moving away from the old apartheid blueprint towards an uncharted future.

Change is taking place against unprecedentedly widespread unrest in black townships throughout the country which led President Pieter (PW) Botha to warn recently of "a dramatic escalation of the revolutionary climate."

The increasingly politicised and unionised black majority is pressing for the abolition of apartheid and rejects as inadequate the piecemeal reforms offered by the Government.

Powerful underlying forces such as black population growth and urbanisation are undermining the brittle stability, interspersed by violent protests, which has accompanied the previous 40 years of ruthless social engineering which led, inter alia, to the forced removal of over 3m people and the creation of separate black "Homelands."

By Anthony Robinson

The same National Party which introduced apartheid is now claiming that the old blueprint of "separate development" is no longer appropriate to the needs of what is by far the most economically developed country in Africa.

But many whites, feeling guilt perhaps at the injustices heaped on the black majority and fearful of like retribution if blacks achieved power, are also deeply suspicious of the

Government's cautious reforms and long for the days of unchallenged white economic and political superiority.

After decades of banning, exiling and eliminating black political organisations such as the African National Congress and individuals like the black consciousness leader, Steve Biko, the Government is now desperately searching for "responsible" black leaders with whom to negotiate a form of power-sharing which would satisfy "moderate" black aspirations while ensuring the survival and prosperity of the white, and other minorities.

There are no quick or easy solutions in sight. The search for long-term solutions has been made more difficult by economic mismanagement which has led to a sharp recession, accompanied by high inflation and unemployment whose worst effects have been felt in the black townships and homelands.

In every one of the last five years, Government spending has overshot its budgeted target, frequently by a large margin.

● South Africa's President, P. W. Botha, centre, flanked by outspoken African leaders: Chief Gatsha Buthelezi of Kwazulu (left), addressing a capacity crowd of 30,000 at Soweto; and (right), the Nobel Peace Prize winner, Bishop Desmond Tutu, leading a march in Johannesburg. There are no easy solutions in sight for one of the most complex societies on earth

Over-reliance on gold to bail the economy out, a plethora of control boards, over-restrictive building regulations, subsidies to farmers, "strategic industries" and consumers, and the costs of administering apartheid in all its forms, have saddled the economy with a mass of distortions.

These have raised costs and reduced productivity to the extent that inflation at 16 per cent (and still rising) is three times the average of South Africa's major trading partners. The low dollar price of gold and the three years of drought, which this year broke in the nick of time, have proved two straws which nearly broke the back of the economy and contributed to the 40 per cent depreciation of the rand in 15 months.

On March 18, Mr Barend du

Plessis, the new Finance Minister, backed by the full support of President Botha and his Cabinet, managed to retrieve some of the Government's lost credibility with his restrictive budget.

"We shook the state spending tree seven times to get the increase in spending down below the rate of inflation this year," says Mr du Plessis.

"Now we have to prune the structure of spending, introduce zero-based budgeting to question the value of doing things and make sure that the bureaucracy does not carry on in its own way doing things which are no longer necessary or which impede the reforms to which we are committed."

But the bitter legacy of years of economic mismanagement and the heavy reliance on an expanded police and defence

force to maintain laws and a form of order rejected by the black majority, has been revealed with a vengeance over the last few traumatic months.

The first death in the black township unrest occurred in February last year when a 15-year-old black schoolgirl, taking part in a school boycott in protest against inadequate black education, was run over by a police armoured vehicle in Ateridgeville, near Pretoria.

As student boycotts and protest meetings spread through other townships in the Vaal Triangle, centred on Johannesburg, and the Eastern Cape, they became intertwined with the broader black opposition to the new constitution spearheaded by the United Democratic Front (UDF).

The rise of the UDF, a loose coalition of over 645 affiliated

church, community and trade union organisations which claims over 2m members, is one of the most significant developments of the past 18 months.

It has been strongly attacked by the Government as a front for the banned African National Congress (ANC). More than 40 of its leaders have been arrested on treason charges connected with the boycott of elections to the coloured and Asian houses of the new tri-cameral Parliament and the two-day work stoppage in the Transvaal last November.

In September, school boycotts and protest against the new constitution came together with a new potent economic ingredient—the effect of rising inflation and unemployment on the already hard stretched black townships.

One week before Mr P. W. Botha was installed as new state President with almost Gaullist powers and prerogatives, the townships of the Vaal erupted in open revolt. The spark which ignited the flames was the rent increases introduced without

# "Ahem!"

Sorry to interrupt, but there's something we think you ought to know. It's about Barlow Rand.

We are, believe it or not, the largest industrial group in South Africa. And one of the largest companies in the world.

Founded in 1902, our business today is in the development of our mining, manufacturing, distribution, food processing and other interests, both at home and overseas.

Our acquisition last year of a majority shareholding in J. Bibby, the agricultural and industrial group, underlines our commitment to growth, and points the way to our expansion into worldwide markets.

Now you know about our size and our ambitions, you'll probably want to know more about our country.

In which case, let us leave you to enjoy this survey.

 Barlow Rand

AN INDUSTRIAL GROUP OF WORLD STATURE  
London Office: 16 Stratford Place, London W1N 9AF

# Time of painful readjustment

THE SOUTH AFRICAN economy is currently in the midst of a painful readjustment. Its vulnerability to external market forces beyond its control has been underlined by the low dollar price of gold and, above all, by structural changes in the world economy which have reduced demand for many of South Africa's traditional mineral exports.

Despite strong growth in the U.S. economy, the hopes for sharp increases in primary product prices have not materialised.

Diamond sales also remain depressed. Mining houses have been saved from sharing in the profits collapse of other sectors of the economy by Rand depreciation. This has increased their Rand receipts from exports and made South African minerals more competitive on world markets.

But the economy's woes are not all attributable to foreign influences. Many are self-inflicted. South Africans are currently paying a high price for that year-long consumer-led boom which came to an abrupt end in July and August last year.

The way in which government overspending, exacerbated by a 30 per cent rise in public sector pay in October 1983, contributed to a boom which sucked in imports and depressed the Rand at a time of declining gold prices and drought, severely affected business confidence.

The failure of business to anticipate the size of the Rand's depreciation and take sufficient precautions to hedge against foreign exchange losses has also had a severe effect on company profits. The most spectacular loser was the electrical appli-

causing from car manufacturers, furniture, textile and consumer industries and stores, generally.

In October, the new Finance Minister, Mr Barond Du Plessis was forced to bring in a supplementary budget to tax and borrow sufficiently to pay for Government spending which rose 22.6 per cent in fiscal 1984-1985 instead of the 13.5 per cent planned.

It was against this economic background, and to the accompaniment of riots and violence in the black townships, that Mr Du Plessis stood up in Parliament on March 18 to present what was called as the most important budget in many years.

What was and is at stake is the credibility and competence of the Government in the eyes of the business community and the country at large. His priorities were:

1-To keep the rise in Government spending below the inflation rate.

2-To ensure that no current expenditure was financed by loans.

3-To reduce the public sector deficit before borrowing to under 3 per cent.

It took seven rounds of tough negotiations with spending ministries to achieve the first objective. Total spending estimates were cut to R30.7bn from R34bn. This still is 13.6 per cent above last year's upwardly revised spending out turn, or 11.4 per cent if the re-inclusion of certain previously off-budget items is counted.

In other words, government

spending remains high even though public sector pressure on capital markets and therefore interest rates is expected to diminish because of the budgeted 18.8 per cent increase in tax revenue. This will come mainly from a combination of fiscal drag, a 20 per cent rise in the Sales Tax (GST) to 12 per cent, levies on mines, banks, insurance companies and higher excise and customs duties on imported office equipment, computers and video cassette recorders.

What is important about the budget is the fact that President P. W. Botha has put his own considerable political weight behind the commitment to keep public spending in check.

To emphasise this point, the President, Ministers and MPs took a 3 per cent pay cut, a symbolic gesture followed a day later by a reduction in the Christmas bonuses of public sector workers. This produced predictable howls of outrage, especially from postal and railway workers and other blue collar voters whose loyalty to the Nationalist Party Government is, in any case, suspect.

But the point has been made—sacrifices have to be accepted by all this year in order to reduce inflation—currently 16 per cent and expected to rise to at least 18 per cent before declining—and shift resources where possible into export industries.

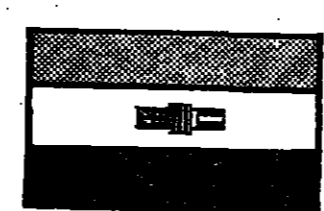
Growth in GDP this year will be sharply down to around 1 per cent compared with the 4.5 per cent of 1984—all of it in the first half. That there will be growth at all is thanks largely to the break in the drought. This has resulted in a substantial rebound for the hard-hit farming sector and self-sufficiency at least in the key maize crop.

Prospects for the rand have improved somewhat following its disastrous decline from a peak of 91 U.S. cents in September 1983 to 41 cents on January 31 this year.

Technical adjustments by the reserve bank to curb leads and lags and the decision to pay gold mining companies half in dollars and half in rand, instead of all in dollars, have helped to underpin the underlying improvement on external account.

The current account of the balance of payments showed a deficit of around R1bn in 1984 but the last quarter was in surplus and 1985 should show a surplus of around R1.5bn, according to Mr Du Plessis.

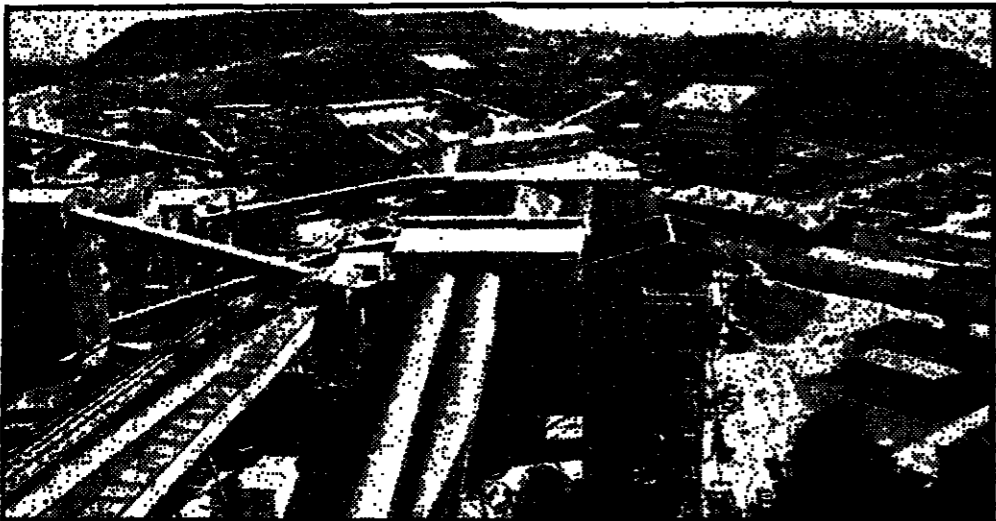
Much will depend on the gold



Although many of South Africa's economic problems are due to external market forces, the country is also paying a high price for a year-long consumer-led boom that came to an abrupt halt in July and August last year. Inflation is at 16 per cent and expected to rise to 18 per cent.



Johannesburg: the business community is facing an uncertain future



Developments in the diamond mining industry have been cut back as sales of gems have not been as high as expected. Above: the Cullinan diamond mine, Transvaal

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CONTINUED FROM PREVIOUS PAGE

has spread across the country, including to townships in rural areas of which most people had never heard.

In February, the plight of millions of the poorest blacks, illegal squatter refugees from poverty in the homelands, was highlighted by 18 deaths in the squatter township of Crossroads, near Cape Town.

Fears that their shackles were to be torn down and that they would be forcibly removed, either back to the Homelands or the new township of Khayelitsha on the Cape Flats, were behind that outburst. It was defused only by a quick reversal of policy by Mr Cees Viljoen, the Minister for Co-operation and Development.

By this time, however, foreign and domestic criticism of police tactics was rising. It reached a new pitch on the 25th anniversary of the Sharpeville massacre of March 1960. Police in armoured cars shot and killed 19 people at Langa, near Uitenhage, in the Eastern Cape.

Amid calls for the resignation of Mr Louis Le Grange, the Minister for Law and Order, President Botha ordered a preliminary mission of enquiry under Justice Donald Kammermeyer. Evidence heard by the judge, including that of the police officers involved, strongly contradicted the version of events given to Parliament by the minister. It also revealed a breakdown in the police chain of command, a disregard for official riot-control methods, and a lot about the attitude of some policemen to the blacks they were policing.

Much hinges on the findings of the Kammermeyer Commission and how the Government implements its recommendations. The widespread nature of the unrest has already forced the Government to bring in the army and the railway police to back up the 46,000-strong regular police force. It has to retain their confidence.

Equally, however, it has to reassure public opinion, especially black opinion, that the police are not a law unto themselves but subject to clear rules of behaviour and accountability for their actions.

Restoring, or rather creating, confidence in the police is vital because the maintenance of public order is seen by the Government as an essential prerequisite for the kind of orderly, evolutionary change to which it is committed. But equally vital, and in the long run the crucial issue, is its ability to find valid and credible negotiating partners among the black community.

If the past few months have done nothing else, they have

demonstrated that the ability to control the lives of 26m blacks (including those in the four "independent" homelands) cannot be maintained indefinitely. By the end of the century there will be 5m whites and nearly 40m blacks.

The question is not whether to talk, but who to talk to? The Government remains convinced that the overwhelming majority of blacks are conservative and more interested in economic advancement than formal political emancipation.

This view is backed up by various surveys and opinion polls which show that what blacks want most is a good job, good education for their children, a decent house and abolition of the pass laws, influx control and other apartheid-induced affronts to their freedom, civil rights and human dignity.

Most of the "reforms" announced by the Government so far tend, albeit haltingly and incompletely, in this direction. They include:

● Recognition of the permanence of millions of urban blacks in "white" South Africa, and of the need to give them some form of political representation.

● A promise to revise the most "negative and discriminatory" aspects of influx control.

● Introduce 99-year leaseholds and possibly freehold rights for blacks.

● An end to the coloured pre-emptive rights in the Cape.

● A moratorium on forced resettlement.

● A new housing policy which will allow controlled shanty-towns and self-build housing and a series of similar changes.

Another symbolic pillar of apartheid legislation fell earlier this month when the Government accepted recommendations of a multi-racial Parliamentary Committee to scrap the laws preventing mixed marriages and outlawing sexual relations across the colour line.

It is a sign of the deep polarisation of opinion within the country, however, that the changes announced thus far have been denounced as "betrayal" by conservative whites, criticised as "too little, too late" by foreign governments and domestic liberals and dismissed as "cosmetic" or irrelevant by most blacks.

After decades of adhering to a comprehensive apartheid blueprint, the Government is now facing an uncharted future. Ministers and top civil servants give the impression that they would like to be bolder. Paternalism is out. Power has to be shared. Means must be found for blacks to shoulder more responsibility, not only politically but economically.

Black enterprise must be encouraged not frustrated as in the past. Blacks themselves

must become employers, create jobs and build their own homes.

Much of the confusion and ambiguity which surrounds the Government's actions and stated intentions reflects the need to address several mutually suspicious audiences at once.

Change, coupled with unrest in the townships, is deeply unsettling to many whites, including powerful elements within the bureaucracy, the security forces and the army, as well as among blue collar workers whose privileges are most at risk from black advancement.

It is no coincidence that the more liberal views are expressed by the more educated and more highly skilled whose futures are more secure.

Painfully, the National Party Government has come round to accepting that the split in Afrikanerdom, provoked by the new constitution, is permanent and is seeking a new consensus of the centre. The message of black frustration and anger coming from the townships is too strong to ignore. It has taken to heart the warning by Chief Buthelesi and other black leaders that those who think that the Conservative Party is more of a threat to stability than 22m unfranchised blacks are deluding themselves.

The dilemma for the Government is acute. To say the least, there lies a great majority hungry for meaningful reform which will improve their lives. But how can it find black leaders with real authority to accompany it along the path of reform without losing control of the speed and direction of change and without provoking a possibly violent white reaction?

Indeed, do such black leaders exist or have they already been frightened off by the fate of black councillors and others who have become victims of violence against so-called "sell-outs"?

The Government would like to believe that negotiating partners can still be found among leaders of the black Homelands, black councillors and black business and church men. In his speech, opening the new Parliament in January, President Botha offered an "informal" non-racial forum where black and other leaders who forswore violence would have access to the highest level of decision-making. So far there have been few takers.

There are black leaders like Chief Buthelesi who, while sharing the almost universal ideological commitment of blacks to the principle of one-man, one-vote, is on record as understanding white fears that this would lead to their being swamped and their identity destroyed by the majority, and

would work for some sort of federal compromise. But he too, demands scrapping the new constitution, abolishing the Homelands system and the repeal of apartheid legislation as a prerequisite of talks.

It is difficult to escape the conclusion that, at some time, the Government will have to unban the African National Congress and talk to its leaders. It is being urged to do so, not only by blacks but also by sections of liberal and "verligte" white politicians, academics and businessmen.

Unofficial "feelers" have already been sent out in this direction through meetings in Lusaka between politically well-connected Afrikaner journalists and ANC leaders.

President Botha himself appeared to take the first step towards a dialogue with the ANC back in January when he offered to release Mr Nelson Mandela and other jailed ANC leaders, if they agreed to abandon their strategy of violent overthrow of the Government and abide by the laws of the country.

The offer was rejected both by Mr Mandela and by Mr Oliver Tambo, the leader in exile. But the last word has almost certainly not been said by either side.

Complicating the difficult search for black/white dialogue and a new modus vivendi is the fact that it is taking place under the glare of unprecedented international media and political attention and against the background of a series of economic sanctions and disinvestment.

International attention is recognition of the potential here for a tragedy of considerable proportions and bitter conflict whose effects would reverberate far beyond South Africa and further destabilise a continent already facing almost insurmountable political and economic problems.

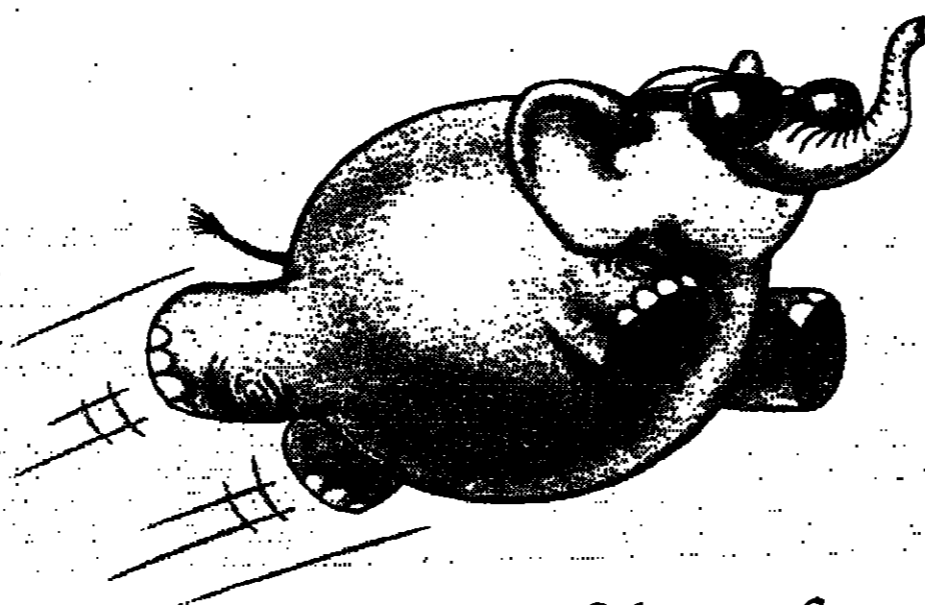
The pressures are increasing for the Government to spell out more clearly and unambiguously its reformist goals and for black leaders to state more strongly their acceptance of a positive future for white Africans in a more equal multi-racial society with guarantees for minorities.

In his recent keynote speech on U.S./Southern Africa policy, Mr George Shultz, the U.S. Secretary of State, acknowledged, as much of the international community acknowledges, that more changes have taken place in South Africa over the last three to four years than in the previous four decades.

But time is not in South Africa's favour and demands are rising on all sides to go faster and faster towards the dismantling of apartheid and the creation of a juster, more integrated society.

Difficult days lie ahead.

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## Complex challenge from wider world

SELDOM HAS the close interaction between South Africa's internal affairs and its foreign policy dilemmas been so clearly marked as over the last 15 action-packed months. It was a point emphasised by Mr George Shultz, the U.S. Secretary of State, in his major policy speech on Southern Africa in Washington last month.

"A society that feels immensely threatened by outside forces is less likely to loosen the controls at home. Nor can black states normalise their relations with their South African neighbours so long as there is no convincing movement away from apartheid," he said.

The outside forces which have so preoccupied South Africa for the best part of a decade have been the Cuban forces and Soviet Bloc advisers in Angola and Soviet influence in neighbouring Mozambique.

The perceived threat of possible military invasion led to the "total onslaught" theory. This was used to justify the building up of a powerful domestic arms industry in the face of an international arms embargo and a defence force capable of striking deep into the former Portuguese colonial territories which had previously acted as a *cordon sanitaire* separating the republic from the newly-independent black states, further north.

Experience has shown that the ability of the ex-Portuguese colonies to act as springboards for invasion was vastly over-estimated. On the contrary, South Africa's newly-acquired military power, coupled with support for rebel movements like Unita in Angola and the Mozambique National Resistance (MNR) in Mozambique, have been major factors contributing to the economic collapse and political fragility of both countries with severe knock-on effects on the economies of countries like Zimbabwe, Zambia, Malawi and others, formerly dependent on rail and road links to Angolan and Mozambique ports.

Having demonstrated its destructive potential as a regional super power, South Africa is now in the position of trying to forge a more constructive relationship with its neighbours in the region and encouraging that process is one of the key elements behind the much-maligned U.S. "constructive engagement" policy which Mr Shultz so powerfully defended in his policy speech.

The events of the past 15 months have shown that it is much easier to de-stabilise than

## Relations with neighbours

ANTHONY ROBINSON

stabilise. A wave of euphoria swept through South Africa 14 months ago when President Marais Viljoen signed the Nkomati Accord with then Prime Minister, P. W. Botha. It was filled with the start of a new policy of mutually beneficial good neighbourliness. Armed with the Nkomati accord and the promise of internal reform to come with the new tripartite Constitution, Prime Minister Botha and his foreign minister, Mr Rieff (Pik) Botha followed up this diplomatic success with a seven-nation tour of European capitals.

## Major breakout

Seen against the background of the two preceding decades of ostracism, the tour was widely seen as a major breakthrough from isolationism. Since then, however, it has been downhill for most of the time, as the combination of domestic unrest and South Africa's inability to neutralise a stepped-up offensive against the Frelimo Government by MNR forces, backed by wealthy patrons in Latin America, Europe and the Gulf, and from inside South Africa itself, cast doubt on the real intentions of Pretoria.

The U.S., whose backstage diplomacy helped bring about the Nkomati Accord, has stepped up its own economic assistance and political support for the Mozambique Government and has urged both sides to keep the Nkomati Accord functioning.

South Africa, which secured the removal of African National Congress training camps and cadres from Mozambique after Nkomati, undertook to do more to root out alleged MNR sympathisers from within the army and elsewhere. It has also undertaken to cease action as "honest broker" between the MNR and the Frelimo Government and to actively support the Mozambique Government's efforts to cut off MNR supply lines and step up military action against them.

The South African Power Corporation, furthermore, is seeking to recruit armed guards to patrol the Cabora Bassa power line and prevent the sort of sabotage which has cut the flow of Mozambique power to South Africa for nearly two years.

While Deputy Foreign Minister, Louis Nel struggles to keep good relations with Mozambique, Foreign Minister P. W. Botha and Mr Chester Crocker, the Assistant Secretary of State for African Affairs, have been involved in complex negotiations with Cuba and Angola whose ultimate aim is to secure the withdrawal of Cuban troops and the independence of Namibia South West Africa.

One relatively minor obstacle to Cuban withdrawal was removed last month when South Africa decided unilaterally to withdraw the last of its own troops from Southern Angola.

The 450 troops involved were the remnants of the invasion force which pushed 440 kms into Angolan territory in December, 1983, in a search and destroy operation against bases and supply lines of the South West African Peoples Organisation (SWAPO).

Two days after the withdrawal, President Botha announced his Government's decision to restore a form of internal "interim government" in Windhoek, the Namibian capital, while at the same time insisting that South Africa remained committed to an international settlement of the Namibian independence question, under the terms of UN Security Council resolution 435.

He repeated the South African proviso that acceptance of 435, which calls for UN supervised elections to a constituent assembly, remains con-

ditional on an agreed withdrawal of Cuban forces from Angola, the vexed question of "linkage" which has made Namibian independence such a movable feast for decades.

The MPLA Government in Luanda has its own linkage demands and wants South Africa to stop its support for the Unita movement led by Dr Jonas Savimbi. Over the last year, Unita forces have extended their guerrilla activities to a point where they now claim to be surrounding the capital Luanda as well as threatening the oil-rich Cabinda enclave and the diamond mines in the north.

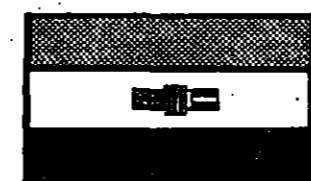
Ideally, South Africa would like to see a political compromise between Unita and the MPLA, leading to a coalition government capable of restoring peace to a country ravaged by ten years of civil war and able to dispense with the 30,000 Cuban troops which, at present remain the main support for the MPLA government.

The obstacles to such a settlement remain daunting, partly because of the mutual antagonism and suspicion between the two Angolan contestants and partly because of the great power element of the problem. The key to any eventual settlement probably lies more with Washington, Moscow and Havana than Pretoria or Luanda.

## Apartheid

Meanwhile, South Africa's foreign policy establishment is facing a complex challenge from the wider world outside its immediate African environment. Relief at the re-election of President Ronald Reagan was soon overtaken by emergence of apartheid as a powerful rallying point for the defeated "rainbow coalition" and the rapid growth of the various "divestment" and disinvestment lobbies in the U.S. and, less vociferously, in Europe.

Disinvestment is an issue which shows the interaction between foreign and domestic policy at its closest. The emergence of South Africa as a major, and divisive, issue in U.S. domestic politics has led to increased pressure from Washington and other Western capitals for Pretoria to reform the apartheid structures of the country.



## Obstacles to an Angolan settlement partly because of the great power element of the problem

In his Southern Africa Policy speech, Mr Shultz acknowledged that "there has been more reform in South Africa in the past four years than in the previous 30."

He recognised that "it has been willing to accept major defections from its own ranks in order to offer a better political, economic and social deal for the nation's black majority."

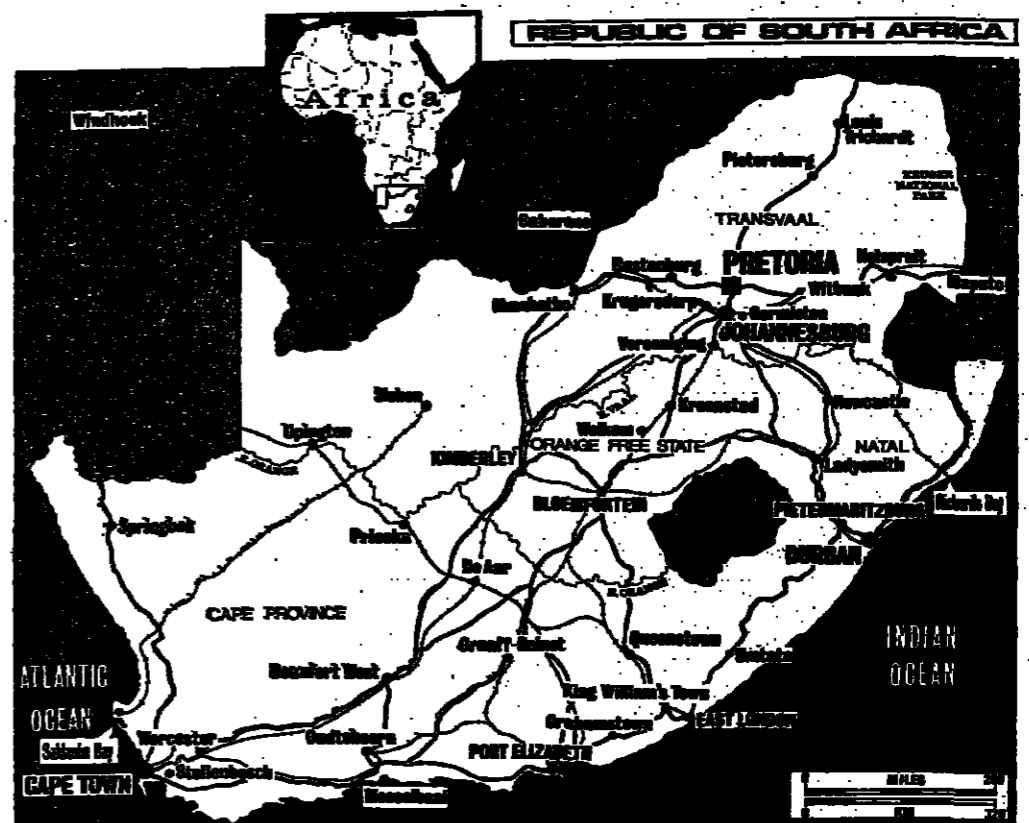
He also had to underline "these changes are not enough."

His speech was the most powerful statement in support of "constructive engagement" to date and emphasised not only the broader global issues of an East-West nature involved here, but also the fact that what happens in South Africa will have serious, and possibly tragic, repercussions throughout Southern Africa.

The aim of U.S. and other foreign pressure is to nudge Pretoria to move faster, to negotiate with black leaders, including the ANC, and spell out more clearly its ultimate goals and objectives in the belief that this is the only way to head off an otherwise inevitable black/white confrontation.

The danger is that pushed too far the Afrikaner-dominated Nationalist Government might dig in its heels and retreat into a form of Fortress South Africa. It would doubtless still continue with "reform"—but at its own speed and under conditions of greater repression and greater economic stringency.

● White South African soldiers on parade, right; although the country has built up a powerful arms industry in the face of an international arms embargo, it is now trying to forge more constructive links with its neighbours in the region.



Experience has shown that the ability of ex-Portuguese colonies in the region to act as springboards for invasion into South Africa has been greatly over-estimated



## Why Pretoria drags its heels

FEW ISSUES have managed to stir up so much diplomatic smoke and so little light as the vexed question of the independence of Namibia, the former German colony of South West Africa which Pretoria has ruled since 1915 and, illegally, since 1966.

The latest chapter in the long-running effort to secure an internationally-recognised independence which will satisfy the five-nation Western "contract group," (consisting of the U.S., Canada, Britain, France and West Germany), set up in 1978 and the UN in general was turned down by President P. W. Botha last month.

The international community was not amused. For what President Botha announced was the creation of a "new government" composed of six internal parties, grouped together in the Multi-Party Conference (MPC). In effect, this is a re-play of the earlier 1978-79 process, headed by Mr Dirk Mudge, leader of the Democratic Turnhalle Alliance (DTA), whose short period in office was abruptly terminated in January, 1983 and replaced by the direct rule of the Pretoria-appointed administrator-General, Mr Willie van Niekerk.

Like its predecessor the new interim government will be involved in strictly local, Namibian affairs with Pretoria retaining control over foreign relations and defence and the administrator general having effective powers of veto over legislation.

## Frustration

The significance of Pretoria's decision to permit another interim government lies in the implication that the South African Government does not believe that conditions will be ripe for internationally-recognised independence for Namibia under the terms of UN Security Council resolution 435 for the foreseeable future.

In the meantime, it hopes that the six-party coalition Government will provide at least a partial outlet for the frustrations of Namibians who continue with the difficult, if not impossible task of trying to get the South West African Peoples Organisation (SWAPO) to join a sort of government of national unity.

South Africa remains formally committed to Namibian independence under the terms of resolution 435 while at the same time the codename for the formation of a special UN force to supervise elections to a constituent assembly. It does not really believe in it.

Aspirations from practical doubts about whether the UN would really be prepared to foot the bill for an up to 7,000 strong UN force to monitor Namibian elections. Pretoria is also sceptical about the UN action that SWAPO is the sole authentic voice of the Namibian people. In Pretoria's eyes, the SWAPO

phased withdrawal of South African troops.

The withdrawal of South African troops has been presented by Pretoria as a gesture to the Angolans, aimed at removing one obstacle to the hoped for evacuation of Cuban troops (the main obstacle remains the military and political pressure exerted against the Luanda Government by Unita guerrilla forces led by Dr Jonas Savimbi, aided by South Africa and other Western powers).

It was also made possible by the South African army's success in blunting the annual seasonal SWAPO infiltration into the Ovamboland war zone.

In the first three months of this year the combined South African and South West African forces of around 10,000 men (exact figures are a military secret) killed 238 SWAPO insurgents. That is over 25 per cent of the 1,200 guerrillas which the army estimates as the total SWAPO infiltration force strength this year. Total SWAPO armed strength is around 8,000, but the military authorities say up to 60 per cent of this total is currently deployed by Angola against Unita forces.

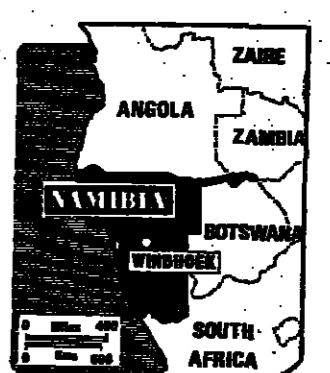
Despite its successes, however, the military authorities accept that they are fighting a war which cannot be won militarily. Small groups of SWAPO forces continue to infiltrate. They place mines on roads and carry out "armed propaganda" and intimidation. It is a small war, geographically limited mainly to Central Ovamboland, but it is a vicious war which has been marked by atrocities on both sides. On the South African side there have been well-documented cases of torture and intimidation, largely but not exclusively by the mainly black Koevoet (Crowbar) Special Forces Unit SWAPO, too, has mutilated and tortured opponents.

## Winning minds

For its part, the South African defence forces claim they are now concentrating on winning hearts and minds and severely disciplining soldiers found guilty of atrocities. They are also running schools and clinics and helping to build up the social and economic infrastructure of the area.

War weariness, they say, is growing, but whether SWAPO and its Soviet and Cuban backers can be persuaded to give up or suspend the armed struggle depends on broader political considerations. For a time last year, the prospects looked promising.

In May 1984, barely two months after the Nkomati



Agreement between South Africa and Mozambique, a SWAPO delegation, led by Mr Sam Nujoma, sat down for three days of talks in Lusaka with a South African delegation, led by Mr Willie van Niekerk, under the good offices of President Kenneth Kaunda of Zambia.

Also present were leaders of Namibia's other political parties. It was a historic and unprecedented event, but the hoped-for prize—signature of a draft declaration which inter alia would have committed the participants to a ceasefire leading to implementation of resolution 435—proved elusive.

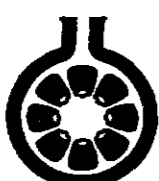
Mr Nujoma, after consulting with a senior Soviet diplomat, refused to sign a document which did not specifically link a ceasefire with implementation of Resolution 435, and the meeting broke up inconclusively. The search for a settlement continued with a series of equally abortive meetings on both sides. Other West African venues, with the active involvement of Mr Chester Crocker, the U.S. Assistant Secretary of State.

The focus of continuing negotiations at this stage is concentrated on formulating an agreed timetable for the withdrawal of Cuban troops and there have been encouraging noises from both Havana and Luanda.

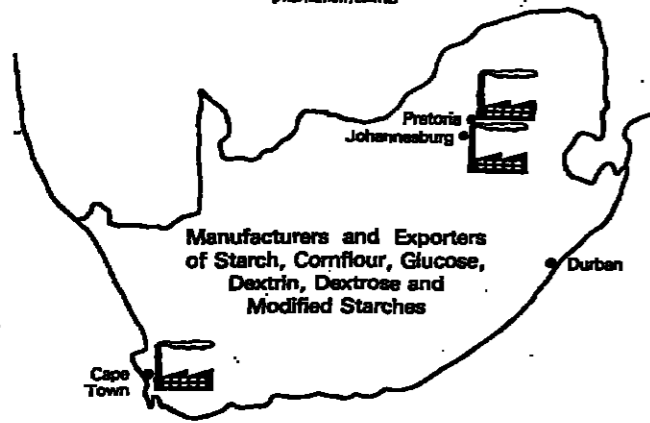
Moscow's intentions, towards Southern Africa, remain unclear. It seems absurd, but the fate of Namibia is likely to be determined in the last resort not in Africa but by decisions of a global nature taken in Washington and Moscow. The breakdown of East-West détente in the 1970s was partly a consequence of Soviet and Cuban involvement in Angola, Mozambique and the Horn of Africa.

It remains to be seen what part Africa, including Namibia, plays in the summit meeting now being proposed between President Reagan and the new Soviet leader, Mikhail Gorbachev.

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# Blacks in urban areas: a demographic time bomb

A DEMOGRAPHIC time bomb is ticking away beneath the politics of apartheid and nowhere is this felt more clearly than in the rapidly changing attitudes towards the future course of black urbanisation.

According to the apartheid blueprint drawn up in the 1980's by Dr Hendrik Verwoerd, the map of South Africa by the start of the 1980's would show white cities and farms serviced from black Homelands, populated by unfranchised hewers of wood and drawers of water.

The twin forces of industrialisation and rising population have been stronger than the whole panoply of influx control laws. Despite the fact that 18m people have been arrested during the 60 years that influx control laws have been in operation, millions of black people have been forced by economic necessity and the desire for self-improvement to settle, illegally if necessary, in and around the white towns or in make-shift urban settlements on the fringes of black Homelands closest to the white urban centres.

This year, in two major speeches by President P. W. Botha and Mr Gerrit Viljoen, Minister for Co-operation, Development and Education (successor to the old Ministry for Bantu Affairs), the National Party Government implicitly recognised that the old Verwoerdian blueprint is dead and that blacks have a permanent place in "white" South Africa.

## Announcement

Less than two weeks after President Botha announced at the opening of Parliament that the Government accepted the reality of a permanent black population and the need to give urban blacks a form of political representation, the world's attention was focused on the country's urban problems by the explosion of violence. This left 18 dead at the Crossroads squatter camp less than 25 kilometres from parliament buildings in Cape Town.

Many people around the world probably drew the conclusion that the Government's talk of a new deal for urban blacks was a sham and that behind the rhetoric of change the old brutal application of force to maintain racially divisive apartheid remained in all its ugliness and inhumanity.

Certainly, as underlined by the Sharpeville anniversary shootings at Uitenhage, the police have lost little of their tendency to shoot first and ask questions afterwards when faced with large numbers of angry and suspicious blacks, and the destruction of their fragile, makeshift homes. The speed with which Mr

## Issue of the black population in white areas

ANTHONY ROBINSON

Gerrit Viljoen came forward to defuse the Crossroads issue by reversing the former policy of total demolition and removal was the fruit of much more than a public relations gesture. In a keynote speech to Parliament on January 28, Mr Viljoen stated that black urbanisation was "inevitable, irreversible and desirable."

He then added the rider, which so often and so confusingly accompanies major shifts in Government policy that the question was where and how such urbanisation was going to take place.

It is around this rider that the debate now swirls. The Government's view is that urbanisation is urbanisation wherever it takes place and that as far as possible black urbanisation should take place within the black Homelands.

Studies by the Urban Foundation, the privately-funded study and pressure group set up by worried liberal Afrikaner and English businessmen after the 1976 Soweto riots, show that much urban development has indeed taken place in the black Homelands.

In the space of 20 years the urban black population has grown from 1 per cent of a 7m-strong Homeland population in 1960 to 17 per cent of a much larger 11m Homeland population in 1980—and the trend continues.

The bulk of the urbanisation which has taken place in the Homelands has been located at the extreme periphery of the point closest to the attraction of jobs and advancement in the white cities and industrial complexes.

Examples of such urbanisation are to be found in the sprawling shanty towns of Witwatersrand in Bophuthatswana some 50 kilometres from Pretoria, Onverwacht, on the outskirts of



Students answering a lecturer's questions at a commercial high school for blacks, sponsored by the American Chamber of Commerce in South Africa. The emphasis is placed on providing quality education and a proper grasp of the private enterprise system



Barefoot toddlers play in the pathways of the Crossroads shanty town, some 13 miles from Cape Town, while their parents work in the city. Recent violence left 18 dead in clashes with police at the squatter camp

Bloemfontein and the myriad shanty towns in KwaZulu which in practice, but not in theory, form the outer suburbs of Durban.

The multi-million inhabitants of these border dormitories are the forced commuters of apartheid.

In an attempt to keep them where they are, the government is spending hundreds of millions of rand in incentives through its "de-centralisation of industry policy." This is aimed at attracting South African and foreign companies to these out of the way areas.

Millions more live illegally, subject to the daily risk of arrest and imprisonment in backyard shanties in black townships like Soweto, Katlehong or Sebokeng or with friends and relations in the tiny houses for black domestics at the bottom of the gardens of affluent white suburbs.

Take a walk down any white suburban street, especially in the leader suburbs of the major cities, and you will meet not whites, who mostly travel in spotless cars, cleaned by their black "houseboys" or gardeners, but blacks. Often these blacks are just visiting friends and relations; but, more often than not, they are on their way to or from work and their more

or less permanent presence is either ignored or condoned by their white employers who risk a hefty fine if found to be harbouring "illegals."

Few things are what they seem in South Africa and white black relations are far more complex than often imagined, abroad.

If the reality is that millions of blacks ignore the pass laws, the group areas Act and the rest of the influx control laws like water passing through a sieve

the business community. The Urban Foundation has based its arguments on careful studies of urban trends. It believes that all aspects of influx control are negative and discriminatory and should be scrapped in their entirety.

According to the Urban Foundation's findings, reinforced by studies made by Mr Charles Simpkins of the University of Cape Town economics department, there will be 11m

to keep the whole expensive bureaucratic apparatus of pass law and influx control management for the sake of an additional 2m people.

It is a question fraught with political difficulties for a largely Afrikaner government which has already sailed too close to the wind for many of its more conservative English and Afrikaner supporters. Powerful ammunition for radical changes in urbanisation policy has come

director of the so-called population development programme. Research showed that the maximum population which could be supported by South Africa's water and other resources was 81m people and that, if present population growth continued, this figure would be reached by the year 2020. It would then continue growing exponentially until checked by famine, disease and mayhem.

It also showed that the "total fertility rate" (TFR) of whites at 2.08 is already below the population replacement level of 2.1, while that of the Asians is 2.7, of coloureds 3.4, and blacks 5.2. When the TFR of urban blacks alone was measured, the level dropped to the same as coloureds.

The conclusion the programme reached was that traditional birth control methods were insufficient and that the best way to keep population growth down was "rapid urbanisation of the impoverished black population and the subsequent upgrading of living standards with particular emphasis on education, health and housing."

Significantly, spending on all three was increased substantially in the budget presented by Finance Minister, Barend du

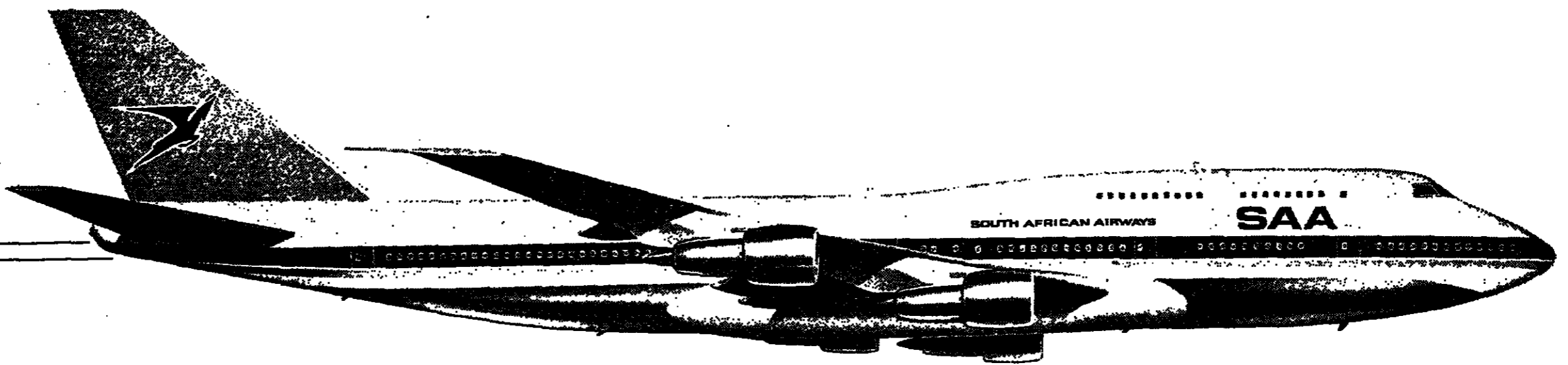
Plessis, last month. The study added considerable force to Minister Viljoen's statement that black urbanisation was not only inevitable and irreversible, but also desirable.

Having accepted, in a convincing manner, the need for a change in urbanisation policy, the Government (aided by bodies such as the Urban Foundation) is also giving considerable thought to the complex question of what kind of housing can realistically be built at a cost affordable to its inhabitants and in sufficient numbers to make good the enormous backlog built up over the decades of treating urbanisation as a nightmare to be avoided at all costs.

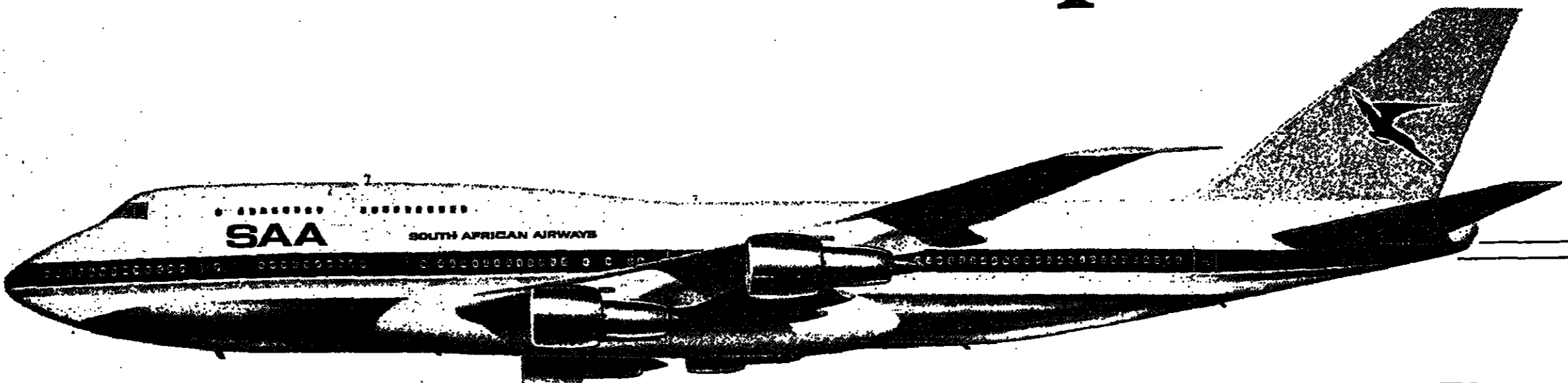
The key to the new thinking is acceptance of the reality of South Africa as a society in which elements of the First and Third World exist cheek by jowl, a situation shared by many countries in Asia and Latin America where, without the complications of apartheid and influx control, affluent city centres are surrounded by shanty towns and favelas of cheap do-it-yourself housing.

As one Johannesburg housing expert explains: "The Afrikaner technocrat has discovered, with enthusiasm, Third World technology."

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# World economic order provides a hard lesson

## Foreign Trade

JIM JONES

OFFICIAL xenophobia has made South Africa a country of lost opportunities. The National party's electoral victory in 1948 led to a clamp on immigration which meant the country did not benefit fully from the post-war wave of skilled European emigrants. This loss was compounded by white fears of their black countrymen. Afrikaner nationalism's determination to take full and permanent control of the country not only led to an industrial introversion in which self-sufficiency and protectionism were preferred to development of export manufacturing industries, but the educational and social inferiority it forced upon the black majority blocked the development of an adequate skilled workforce.

As a result South Africa has remained a primary producer, subject to all the uncontrollable economic vagaries this implies. More to the point the country risks failing to establish itself as a fully-fledged first-world economy, along the lines of the Pacific Basin states which have founded their industrial development on the export of manufactured goods.

### Mineral reserves

It is all very well for apologists to crow about the fact that South Africa has the world's largest reserves of gold, platinum, chromium, vanadium, manganese, iron ore, coal, uranium, and other minerals—this natural endowment does not provide any leverage against trade sanctions which, to varying extents, have compounded the self-inflicted economic inefficiencies of apartheid. All that the minerals endowment has contributed is to make the country a leading exporter of unprocessed and semi-processed raw materials.

Under these circumstances the regular exhortations to export aimed by politicians at manufacturers seem pointless. It is simply not possible to convert easily into active exporters manufacturing firms which have sheltered behind protectionist barriers and concentrated on import replacement.

The persistent reliance on protection and the emphasis on self-sufficiency at any cost have helped create an industrial structure which is in many respects uncompetitive, inefficient and inflexible. In addition it has, arguably, increased South Africa's vulnerability to sanctions.

This view may well appear to be contradicted by the glossy proclamations that South Africa is the continent's leading industrial nation. There is no disputing that claim. Rather, it has now dawned on individuals, businessmen and politicians that apartheid has left the country less industrially advanced and less able to overcome economic difficulties than might otherwise have been the case.

Government's boldest moves recently have been to scrap import quotas on a wide range of goods and to provide protection by means of tariffs. This has resulted in anguished cries from many manufacturers who claim that imported competition will kill domestic production. Government's stated view, to which it is for the present sticking, is that imported competition will make local industry more competitive and thus better able to compete in export markets.

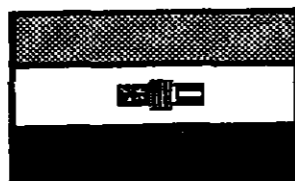
Industrialists are having to absorb the hard lesson that the world economic order has changed since the start of this decade. Low inflation and persistent real interest rates available in most Western countries have combined to flatten gold prices.

At the same time, the economic recoveries of the past few years have been considerably different from earlier ones. In the process, South Africa's trading activities have been squeezed unmercifully.

The most difficult adaptation has been to the fact that the gold price is locked into a period of stagnation and that windfall gains are unlikely. Failure to realise this led to balance of payments constraints and a sharp end to the brief economic recovery of 1983.

Since then it has become plain that considerably improved trade and balance of payments performances are needed if the economy is to escape from its current economic trough.

The problem with this is that the industrialised countries' demand for raw materials has not increased across the board. As a result, South Africa is largely obliged to rely on raw materials exports to cut import volumes as a means of improving the balance of trade. The rand's decline last year did not, however, have an immediate effect on trade in other goods.



The main threat of trade sanctions comes from the U.S. where there are moves to ban imports of Krugerrands and to prohibit exports of high-tech products

Imports did not fully respond to the falling exchange rate until early this year, while raw material export volumes have not risen particularly sharply in response to the economic recovery in the OECD nations. As a result the current account of the balance of payments only moved into surplus during the final quarter of 1984.

Some of the trade difficulties have been beyond the country's control. Four years of drought forced South Africa to become an importer rather than an exporter of maize; demand for diamonds has not grown as expected in America; the world's economic recovery has been largely consumer-based so that while metals such as chrome have been in demand, others such as manganese have not shown comparable growth.

### Threat of sanctions

Price-cutting of raw materials does not necessarily guarantee additional sales, particularly as many countries determinedly diversify supply sources, as the raw materials producer. South Africa has seen terms of trade shift against her because of her preponderant reliance on raw materials exports.

Matters have not been helped by the emotive and growing threat of trade sanctions. Despite brave rhetoric from President P. W. Botha, Foreign Minister P. K. Botha admitted this March that sanctions would hurt the country.

Advocating sanctions is a criminal offence inside South Africa and the threat is being used to rally waverers to the National Party cause. However, for the present the threat seems less real than imagined and

consensus appears to favour the view that if the flow of goods stops from one country it will start from another.

The main sanctions threat comes from the U.S. where there are moves to ban the importation of Krugerrands, which comprise about 8 per cent of South Africa's annual gold sales, and to prohibit the sale of high technology products, particularly computers. For example, imports of computers and computer equipment totalled R568m in the first 10 months of last year against R398m in the whole of 1983 and R394m in 1982.

So important is the threat perceived to be that South African Government has established a special diplomatic division to counteract the divestment movement.

More practically, South Africa has progressively sought to protect itself from trade boycotts by developing indigenous manufacturing capacity.

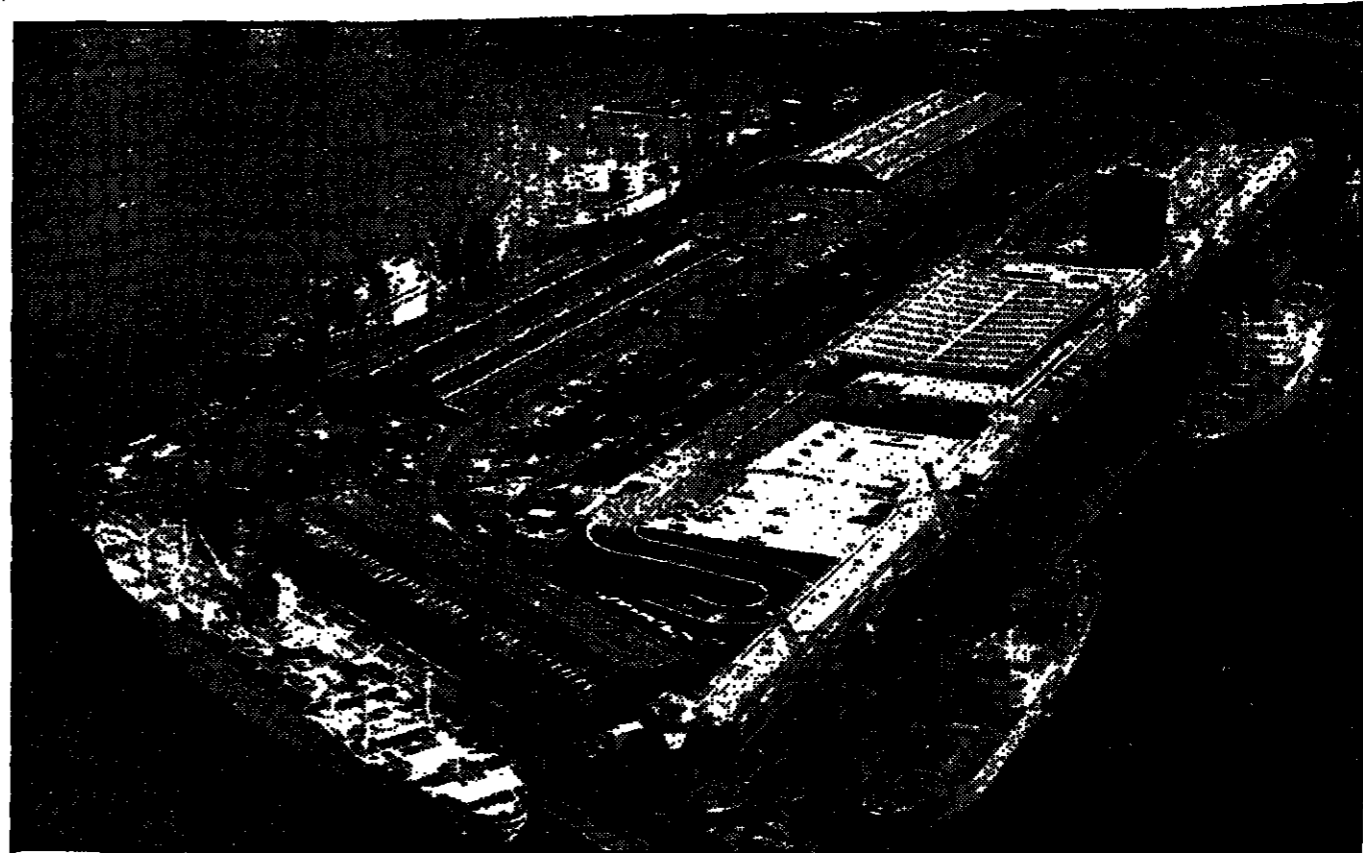
An example regularly quoted by politicians eager to assure the electorate that South Africa can overcome any difficulty is Armscor, the state-owned arms manufacturer.

Details of Armscor's production and sales are kept secret. But though the company has exhibited various pieces of conventional weaponry and ammunition at arms shows around the world, development of indigenous arms manufacturing capacity has apparently not resulted in appreciable export orders or civilian technology spin-offs.

On the other hand it has resulted in substantial orders from the military for equipment from vehicle manufacturers such as Leyland and Mercedes-Benz.

As far as military aircraft are concerned, local manufacture has failed. Jet engines have still to be imported and the only locally manufactured aircraft is a jet trainer based on an obsolete Italian design from the late 1950s. Vulnerability became clear recently when the last Shackleton coastal patrol aircraft were taken out of service. There was no locally designed product to take its place nor could South Africa buy custom-built equipment elsewhere, despite shrill warnings that this would lead to an end to surveillance of the Cape sea routes.

The rand's decline has proved to be a mixed blessing. Not only has it made exports appear more and imports less attractive, but miscalculation of the currency's likely trend has badly affected many companies



The Government's boldest recent moves in the trade sector have been to scrap import quotas on a wide range of goods and to provide protection by means of tariffs. Above: the Port of Durban

### doing foreign businesses.

Most unfortunate have been those companies which last year believed that the rand would bottom somewhere above \$0.40

and took forward cover accordingly. In the event, the rand dropped like a stone to hit an all-time low against the dollar of \$0.42 early this year. The effect on both importers and exporters was shattering.

In some cases, forex losses could not have been foreseen. Rex Trueform, a clothing manufacturer, has exported regularly to Hepworth, the British clothing retailer, for many years. Last year, the British manufacturer took out its normal forex contracts to cover expected sales only to be forced to undo the contracts at a considerable loss when Hepworth decided to terminate purchase agreements.

On the other side of the coin, importers have suffered from the rand's fall and have been unable to pass on the cost to customers. Tedelz, the manufacturer and distributor of consumer electrical goods, suffered a forex loss of more than R100m by taking incorrect cover decisions. One response has been to re-export large numbers of consumer goods. But the fact remains that time spent between placing orders and the arrival of imports prevented

any real reduction in the nation's import bill in the second half of 1984.

A growing complaint by manufacturers faced with import competition resulting from removal of quota barriers is that they cannot effectively export. Cement producers, for example, who have had to compete with marginally priced imports from Spain, complain that attempts to retaliate by exporting South African cement to Spain itself are blocked by Spanish import restrictions.

In contrast, trade with the rest of Africa is improving after a setback in 1983. Details are infrequently disclosed and exporters are faced with the problem that many African

states have little foreign exchange with which to pay for imports.

### Counter-trade

As a result, counter-trade has of necessity developed. By way of example Hill Samuel, the merchant banker, has established an office in Maputo to act as a clearing house for counter-trade between South Africa and Mozambique. At this stage this is principally to facilitate the exchange of South African goods for the provision of export facilities through Maputo harbour and for the wages earned by Mozambican migrant labourers on the South

### African gold mines.

Government spokesmen have increasingly claimed that South Africa is trading with every country on the African continent, despite official disapproval of apartheid. Nonetheless, the basic pattern of trade with the continent has not varied greatly. South Africa's main exports are chemicals and explosives to the mining industries of its near neighbours. These are followed in importance by metal products (largely steel semis and manufactures), machinery and foodstuffs.

Leading imports from Africa, not surprisingly, are textiles, tobacco, agricultural products and metals.

### Foreign trade figures

	IMPORTS			EXPORTS		
	1982	1983	1984 Jan-Nov	1982	1983	1984 Jan-Nov
	Rm	Rm	Rm	Rm	Rm	Rm
U.S.	2,697.0	2,467.0	2,154.3	1,322.8	1,753.6	1,942.4
West Germany	2,708.7	2,336.0	2,150.2	865.4	753.4	883.9
UK	2,196.4	1,892.9	2,245.4	1,432.6	1,324.1	997.2
Japan	1,852.2	1,908.3	2,625.5	1,670.7	1,546.7	1,774.2
Africa	322.4	381.7	381.7	904.8	797.1	746.2
Other	8,631.6	7,422.5	8,510.6	13,147.2	14,496.9	16,984.7
TOTAL	18,418.3	16,552.7	20,067.6	19,343.5	20,672.0	23,328.7

## "... South Africa has a great destiny on the African continent..."

All responsible South Africans are united in the pressure for peaceful and meaningful political change and an end to discriminatory race laws. The call for sanctions and divestment to bring this about should not be heeded without very careful consideration of their likely long term practical effects. To encourage a course of action which must inevitably provoke violence is dangerous and irresponsible in our view. Effective economic sanctions, however well-intentioned, would have disastrous consequences for all who live in southern Africa.

The companies of the Anglo American Corporation group continue to press specifically for the elimination of discriminatory labour practices and to strive for the improvement in the quality of life for all South Africans, irrespective of race and colour. The policy of Anglo American Corporation is unambiguous: we believe that a healthy society depends as much on healthy labour relations and equality in the workplace as on the recognition of the rights, responsibilities and social obligations of employed and employer alike. Indeed, for more than a decade our Group has supported full trade union rights for

Blacks, and today we bargain with a Black and multi-racial trade union movement representing more than half-a-million Black workers — one of the most powerful union movements in Africa.

We believe South Africa has a great destiny on the African continent, and that once the dynamic of our country has been released by eliminating the injustices which still prevail, South Africa will be able to make its significant contribution towards leading the continent away from poverty, disease and misery.

G.W.H. RELLY  
Chairman

Anglo American Corporation  
of South Africa Limited

## Sanctions are a two-edged sword

DISINVESTMENT IS a very serious subject in South Africa. Almost everyone mentions it early on in any conversation about the country's future. It is the latest form of threatened international sanctions, made more formidable by the fact that much of the pressure to divest is coming from the United States.

Sanctions against South Africa sometimes work, though not always in the way intended.

There is no doubt that the ending of a large number of international sporting exchanges had an effect in reminding the white population of the extent of its isolation from the old, largely white Commonwealth community. South Africans were made to think about whether they wanted a more multi-racial, internationally accepted society.

Many of the headlines in the last few weeks have been dominated by whether or not New Zealand will play rugby in South Africa this winter. The New Zealand Government, however, was probably right to raise difficulties. That is the kind of pressure that encourages South Africa to reform.

On the other hand, the United Nations can one day decide to persuade member states not to sell arms to South Africa to persuade them not to buy weapons produced in South Africa. Again, the partial oil embargo has only reinforced existing trends in the search for energy self-sufficiency. South Africa has abundant coal reserves, can develop nuclear power and has acquired extensive oil stocks.

It is true that overcoming economic sanctions is expensive, but South Africa has shown that it has the resources to do it. Disinvestment falls somewhere in between the sporting sanctions and the economic blockade. It is more of a threat than a reality, more talked about than enacted. (New investment during the recession is, anyway, not high.) The threat has the effect of making South Africans think about their relations with the outside world

includes such aims as equal pay for comparable work, desegregation on the shop floor and the improvement of black training. The European Community adopted a similar code later, with emphasis on black membership of trade unions.

Mr Sullivan attended a conference in Britain earlier this year to urge that the U.S. and the Community codes should be strengthened. Yet it is here that you run up against the rigidities of the South African political system.

Companies can be brought to accept equality in the work place. They can make enormous efforts to improve facilities and training and blacks now play a key role in the trades union movement. But they cannot easily persuade the Government to end social segregation outside.

That is where the codes of conduct have reached an impasse. The politics have yet to catch up with the industrial reforms. Caltrex, a U.S. company that has ended working segregation and discrimination admits that after work its employees are obliged to go their separate ways.

Some Americans have reacted by trying to step up the pressure. There is now a range of proposals before Congress which would make the Sullivan code mandatory, penalise firms that do not fully comply, ban new investment, deny landing rights to South African Airways in the U.S., and perhaps ultimately go for a complete trade boycott.

Mr George Shultz, the American Secretary of State, spoke out strongly against them in a major policy speech on South Africa on April 17 this year.

There are two related reasons why Congress should pause for thought. The first is that the available evidence suggests that disinvestment and trade boycotts are opposed by a large majority of black workers. The second is that sanctions would work only at the margins of the South African economy. The country could survive them.

An extensive poll of black opinion was recently undertaken by Dr Lawrence Schlemmer, the Director of the Centre for Applied Social Sciences at the University of Natal. The interviews were conducted by blacks face-to-face and lasted an average of 110 minutes each. Only 26 per cent came down in favour of disinvestment, though it is also interesting that

a huge majority of black employees regarded American companies more favourably than South African companies in terms of wages, help with housing and education, training, union negotiations and disciplinary practices—a sign perhaps that the voluntary Sullivan code is achieving the right results. IBM reaffirmed in April that it would stick to its policy of doing its best by the blacks who are being hurt by the current South African recession. Even Archbishop Tutu should be urging the Government to reform before disinvestment is considered.

Chief Buthelesi, no friend of the South African Government, was in the U.S. in February arguing that disinvestment would hurt primarily the blacks, just as it is the blacks who are being hurt by the current South African recession. Even Archbishop Tutu should be urging the Government to reform before disinvestment is considered.

### Substitution

Meanwhile, the capacity of the economy to adapt to sanctions should not be underestimated. Some whites might even welcome them as an excuse to turn inwards on the theory that "poor, but white" is better than having repeatedly to succumb to international pressure.

The scope for import substitution is considerable, the need for outside capital not all that great, and the Government is presently making no new international borrowings. In the end, says Governor de Kock, South Africa under sanctions would be like Rhodesia in the last years of its illegal independence: "a poor quality, high cost economy." The country could still get by, but the desire to promote the black would diminish.

Disinvestment at this stage is a useful threat. Fully applied it might have precisely the opposite effect of what is intended. It would be nice, but probably unrealistic, to think that the threat could be carefully manipulated.

Still, South Africans should remember that disinvestment and investment are not just political campaigns or slogans. Investment will come or go largely dependent on how far the country is considered a worthwhile risk that is up to South Africa to determine.



## New structure brings greater competition

DEVELOPMENT OF South Africa's financial sector has tended to lag that of other countries, in part because of continuing restrictions on the ability to invest abroad and in part because of a preference by many of the country's managers for sheltering behind protective barriers.

Those barriers are gradually being dismantled, leading to a general blurring of the previously clearly defined differences between financial institutions.

Just over two years ago, by way of illustration, Barclays, the largest banking group, climbed into the home-loan market in direct competition with the building societies.

The experience has not been particularly inspiring as Barclays this year reported losses on its R1.5bn home loan portfolio. Nonetheless, it forms part of an overall move towards the formation of broadly-based financial groupings combining banks, building societies and insurance companies.

At present the building society movement is facing up to new legislation which will dismantle concessions which help protect them from direct competition from the banks but which will also allow them more effectively to compete with the banks.

Fundamentally, the new measures affecting both the banking sector and the building societies will heighten competition for available funds and should lead to fewer distortions in the allocation of funds than is currently the case.

### Cash flow

One effect will almost certainly be a structural increase in the cost of money available for home purchases to bring it into line with rates charged to other borrowers by the banks. At the same time, the new regulations will allow South Africa's financial sector more closely with its foreign counterparts.

Presentation of this year's budget plainly underlines the paucity of funds available to a free-spending Government. With the economy in decline and industrial firms increasingly less able to pay taxes, the Finance Minister, Mr Barend du Plessis, cast around for milch cows and lighted on the banks and life assurance companies.

### Changes in the financial scene

JIM JONES

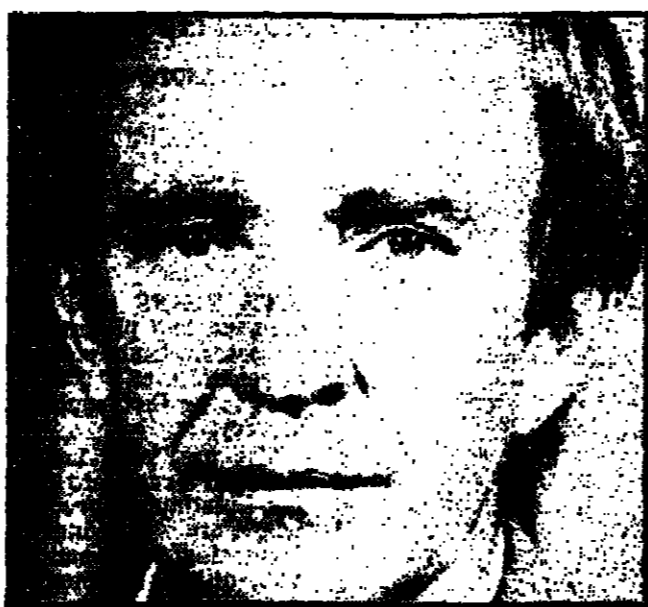
country's banks while an additional tax of 7.5 per cent of gross income is to be levied on long-term insurers effectively raising their tax rate to 27.5 per cent.

While the additional impost will curb banking profits, the banking sector as a whole is far more preoccupied with likely amendments to the Banks Act which could well rein in some of the more creative financing devised to circumvent normal liquidity and capital requirements.

The most popular device has been to obtain funds overseas. Liabilities thus created were not controlled by domestic capital and liquidity adequacy requirements and this effectively meant that the banking sector's entire structure was rendered increasingly risky.

Changes being proposed by the Reserve Bank, the regulatory authority, are to some extent involuntary and stem from the Bank of England's disquiet at the off-balance sheet financing of Barclays and Standard, the two major banks in which British interests have the major shareholdings.

While South Africa has not



Mr Barend du Plessis, above, South Africa's new Finance Minister; gold plays a pivotal role in the economy



become a signatory of the Basle Concordat, which regulates banks' foreign activities, the South African Reserve Bank will more closely supervise the foreign activity of the country's banks and more closely align solvency requirements with those in other countries.

The aspect most troubling to bankers is that the basing of capital requirements on the riskiness of assets, rather than on liabilities, will lead to immediate capital inadequacies, particularly for the South African controlled banks. Barclays and Standard have been obliged, because of their parents' need to comply with Bank of England requirements, to maintain assets against off-balance sheet items.

The South African banks, on the other hand, have been less

## Growth despite restrictions

LIFE ASSURANCE has been one of the few areas in the financial sector to report continued growth in spite of the recession. Nevertheless, the trading environment has not been particularly easy and some of the major life offices are having to face up to the restrictions with which they are surrounded.

South African institutions are not readily permitted to invest outside the country and as a result the life insurers have been aggressive buyers of assets at almost any price. The regular cash inflows enjoyed by the life offices have, until recently, been a major factor underpinning equity prices on the Johannesburg Stock Exchange and fuelling the drive for acquisition which has been a major characteristic of recent years.

Cash flow strength has not, of course, left the life offices immune to the economy as a whole. For example, Sanlam, which is the second largest insurance group with assets exceeding R100b is the largest individual share holder in Nedbank, the third largest banking group, and has close links with Allied, one of the largest building societies. Sanlam controls Bankorp which, in turn is the controlling shareholder of Trust Bank while Volkskas, the fourth largest banking group, is a major shareholder in Legal and General.

Short-term insurers have in the past year been forced to re-examine their fundamental marketing strategies. Size and market share, it appears to have been argued, were far and away the most important attributes even if they had to be achieved at the expense of immediate profits.

Views on the desirability of size and concentration of power permeate all sectors of South African business. In the case of the short-term insurance sector, however, it has been pursued by unsustainable methods.

Fundamentally, competitive pricing aimed at garnering business has been at the expense of the re-insurers who were saddled with increasing levels of unsatisfactory risk. They reasonably enough in the light of persistent re-insurance

changes from being a mutual society to one with shareholders.

Liberty has diversified outside South Africa to a greater extent than its competitors, but this has not been without frustrations. A 25 per cent equity interest is held in Sun Life of Britain, but this has not yet been converted into direct participation in the London insurance market.

Though Liberty's management believes that it can offer insurance expertise to London it realises that breaking into the British insurance scene without the agreement and support of Sun Life's board would be more than a little difficult. Meantime, Liberty is left playing a waiting game.

Close associations between in-

lesses, have made perfectly clear their unwillingness to continue bearing the brunt of uneconomic pricing strategies.

The eight re-insurers operating in the South African market last made a collective profit in 1979 equivalent to 2 per cent of the net premium income. Subsequent years were little short of disastrous. In 1980, the collective loss amounted to 1 per cent of net premium income; in 1981, 59 per cent; in 1982, 37 per cent; in 1983, 9 per cent and last year in the region of 40 per cent.

As a result, Swiss Re and Munich Re, the two largest re-insurers, have decided to reduce sharply their exposure until the short-term insurers achieve a better balance

the re-insurers and from deteriorating claims experiences has been inappropriately structured. Rather than individual companies adopting particular strategies to cope with the problem, the industry as a whole huddled together in a rates cartel which quickly attracted the attention of the Competition Board.

Not only that, but the cartel itself faltered when a few companies decided that they preferred to seek business aggressively rather than shelter under a market agreement which allowed rates to be increased using lower rates to lure customers away.

On the whole, individual short-term insurance firms have been able to support poor underwriting results because investment incomes have been advancing in line with rises in the overall pattern of interest rates. This was insufficient last year to make up for the short-term arm of the Old Mutual, from reporting an overall loss. It is feared that the general situation could worsen later this year as interest rates decline and returns on investments deteriorate.

Building societies, which have watched part of their home loan function be taken over by the commercial banks, should next year be presented with a diversification choice. A draft bill requiring the societies to hold securities and capital assets against liabilities will be presented to Parliament and will impel the societies to decide whether they will remain as mutuals or will convert to equity bases.

Proposed terms of the bill have led to considerable divisions within the building society movement with Permanent Building Society, the second largest, determined to remain a mutual arguing that the movement has a social function to perform which can only be done by remaining as a mutual. United, the largest, argues the converse and is already planning developments which will allow it to compete in a banking environment.

Essentially, the South African financial scene is one of blurring differences with the emergence of financial institutions with far broader operating bases than before. Diversification, however, does not lessen the problems associated with restrictions on investing abroad and the limitations already apparent in South Africa itself.

JIM JONES

The general prohibition on foreign investment proves to be a major drawback

## The sole source of equities

### Johannesburg Stock Exchange

JIM JONES

THE JOHANNESBURG Stock Exchange differs from the world's major bourses in one significant respect - it is the sole source of equities for the small number of institutions and conglomerates which dominate South Africa's private sector.

Exchange controls largely prevent South African investors from buying on other markets and, as a result, Johannesburg is characterised by a fear among institutions that if they sell large lines of shares they will be unable to replace them.

This reluctance to sell, and the competitive drive of institutions to find equity homes for their growing cash flows, was directly and indirectly clearly signified in the past year.

An indirect example was the Rand Daily Mail (now closed), which had generated losses for several years. Had the newspaper been published in London it would almost certainly have been sold to someone with plans to restore profitability: not so in South Africa, where asset accumulation has become the national corporate pastime.

More direct examples were the willingness of Gemcor, the country's second largest mining house, to pay a high price for Fedex, the electrical goods manufacturer, and then to support the company with cash injections when it came close to failure late last year. Sanlam, the insurance group, acquired control of the South African Nissan motor manufacturing plant from its previous owner and is preparing to finance a return to profitability; and Liberty Life, another insurance group, readily agreed recently to take up Standard Chartered's rights in the R177m issue of Standard Bank.

The general prohibition on foreign investment is a major drawback for several of the larger groups, which until recently were satisfied by the ability to buy controlling shareholdings in local firms from their erstwhile foreign controllers.

There are few remaining opportunities in this direction, particularly if disinvestment by foreigners is accompanied by an unwillingness to continue providing technical assistance. As a result, major corporations such as Liberty Life, Barlow Rand and Gemcor are actively pursuing foreign investment



Watching the price of gold: the floor of the Johannesburg Stock Exchange

opportunities which circumvent exchange control regulations.

Nevertheless, the overhang of institutional funds remains the prime determinant in the market's overall performance.

There is some light on the horizon with growing talk of privatisation of state-owned companies in the power, steel, transport and communications sectors.

Preliminary moves have already been taken with the recent sale of part of the state's interest in Sasol, the oil-from-coal producer and the state's entire interest in Salmarine, the national shipping line.

Nonetheless, these offerings are quickly and smoothly absorbed by cash-rich institutions, and the same is likely as other public sector corporations are released into private hands. It is unlikely, however, fully to overcome the disadvantages exchange controls pose for conglomerates which together control large parts of the private sector and which believe domestic growth and investment prospects are limited.

### Expectation

In the middle of last year there was a flurry of expectation of a welcome market broadening with the introduction of the Development Capital Market (DCM) sector. It was designed to act as a nursery for smaller and newer companies whose performance records and capital structures would not immediately qualify them for a position in the primary lists.

Though the DCM was originally expected to perform a similar function to that of

have tried to rally on this consideration, there is no consensus that an easing of interest rates will compensate for the effect of deteriorating trading conditions on share prices.

For several years, the JSE itself has been regularly criticised by outsiders for its lack of ability to enforce rules designed to protect shareholders. A case in point last June was a deal in which Sanlam, the country's second-largest insurance group, and an important client of several brokers, acquired joint control with Kirsch Industries of Kinet, the top controlling company of the Kirsch retail and wholesale group.

The JSE argument that an effective change of control had taken place and that a comparable offer should be made to Kinet's minority shareholders was disputed by Sanlam and Kirsch Industries. The desultory squabble ended this March when the JSE backed off and admitted that though it still believed in the correctness of its claims it could not afford litigation nor could it enforce its ruling.

A pragmatic view is that many brokers are reluctant to offend the handful of major institutions which are responsible for most of the market's trading and brokers' commissions.

### Commissions

The institutions' clout with the broking community has been sufficient to effect a swing towards sliding scale commissions which favour large share purchase orders. Nevertheless, the JSE committee has set in train developments which could improve the exchange's ability to police trading activities.

The exchange is breaking with its tradition of appointing a non-executive chairman from within the ranks of brokers and is seeking a disinterested, salaried executive chairman who is not a broker. One of his responsibilities will be the effective implementation of the JSE regulations. Another will be to influence quoted companies to improve their reporting standards.

The JSE is unlikely to follow developments in London or New York where institutions have acquired interests in stock-broking firms. Apart from the fact that partners have individual liabilities for their firms' debts, with fewer than 30 broking firms which have more than one partner considerable conflicts of interest could develop if legislation was altered and corporate broking members were allowed into the market.



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years later, we have 3 Sasol plants in full operation. Each an economic viability in itself, all delivering a quality product from low-grade coal - at a competitive price. And that's no mean feat considering we must imitate nature every step of the way, with every regard to cost, in creating our miraculous fuel of the future.

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## South Africa 12

## Exchange rates attract more foreign visitors

SOUTH AFRICA'S tourist industry is one of the few sectors benefiting from the current exchange rate.

While economic circumstances have forced many South Africans who would normally holiday outside the country to take their holidays closer to home, the exchange rate has increased South Africa's attraction for visitors from Britain, Europe and the U.S.

More than 10 per cent more foreigners holidayed in the country in 1984 than in the previous year, 583,524, and well over 17 per cent more business people, 186,904 arrived.

With an increase in South Africans holidaying at home and the recession forcing a cutback of convention and conference bookings at many premier hotels and holiday resorts, the hotel and accommodation market has become fiercely competitive.

The objective now is to provide quality rather than luxury accommodation at affordable prices. But South Africa still boasts a fair amount of luxury establishments. It has also become more sophisticated in the upper income strata where most foreigners, their pockets bolstered by the strong dollar and sterling, are now able to take their leisure in South Africa.

The foreign business person will spend the major portion of a visit to South Africa in luxury hotels that have little to distinguish them from similar standard Western-style hotels elsewhere in the world. Most likely that hotel will be in Johannesburg, the commercial and industrial centre.

### Brash city

While Johannesburg may have a heart of gold, it is difficult for any visitor to find that out. During the day its predominantly black population is the only feature that hints at its location in Africa. And the city's brashness has seen to it that little evidence of its beginnings, 100 years ago, still remain.

At night and at weekends, like the other city centres of South Africa, it is deserted and desolate. All the more reason for the business visitor to work three free days into the schedule. For in those three days it is possible to experience the most popular tourist attraction South Africa has to offer

and unwind enough to face even the most harrowing of home-ward flights.

South Africa's game reserves are rightly famous—and the Kruger National Park is the greatest of them all. Breathing in size and variety of game, with reasonably priced accommodation in its camps, it is immensely popular. South Africans themselves flock to it throughout the year and crowd it during the school holidays.

### Boost for Tourism

PADDY CLAY

Package tours and group bookings, the easy way for foreigners to visit the Kruger, yet the limited leisure time available to the business visitor and the aversion, many people have for such "group" tours often precludes a Kruger visit from many itineraries.

Still, there is a very attractive and more personalised alternative to a Kruger visit for the visitor eager for a photographic safari and a chance to relax.

Situated alongside the Kruger Park's western border are the Sabi Sands and Timbavati Reserves which cover an area rich in game. The area has been set aside for both conservation and limited and controlled hunting and the Reserves are made up of private game farms, many of which finance themselves through game lodges that cater for a small number of guests.

In these private reserves which offer comfortable and sometimes luxurious accommodation, good food and tranquillity, the visitor, with little time to spare, has the chance to view an astonishing variety of game from close quarters. All of them are an easy hour's flight from Johannesburg.

One of the best-known of these game reserves, due to it being a favourite destination of TV personalities—for example, the conservation keen comedian, Spike Milligan—is Londolozi. Price-wise, Londolozi falls in the upper middle of the range with R200 per person per night being the fully inclusive tour tariff during high premium weekends.

Despite the favourable rate of

exchange for the visitor, that price could look a little steep if it were for an "ordinary" hotel. But all-inclusive at Londolozi means early morning and evening game drives in an open Land Rover with an experienced guide and tracker, the likelihood of seeing all "Big Five"—elephant, lion, rhino, hippo and buffalo in the space of 24 hours; then there are well-cooked meals that include dinner round an open fire in the traditional boma, electric lights and hot and cold running water in the middle of the true bushveld.

Londolozi also believes in wildlife education and so—in the nicest way possible—it throws in a good dose of its own conservation and habitat management philosophy. Such is the persuasiveness of the evidence of this philosophy that visitors are likely to come away devotees of the Londolozi formula for conserving the bush, the game and the people of Africa.

The other private game reserves are no less attractive. They all offer accommodation in degrees of comfort ranging from superior to ultra-luxury, friendly hospitality, good food, game drives and their own approach to conservation.

It is also possible to glimpse a very different piece of South Africa in a spare three days. Wine-lovers, and those more in favour of spectacular scenery, could choose to spend their days of leisure in the Cape, close to the wine route that winds itself through historic early settlement towns and vineyards. Intimate country hotels—some of them in houses in the Cape Dutch architectural style which have been declared national monuments—complete the experience of unique South Africa.

Cape Town, the "mother" city, is the only city in South Africa that can lay claim to an air of graciousness. It also offers a therapeutic change of pace. Its surrounding beaches and mountains are spectacular. When it is necessary to reduce a South African tour to less than a week, when the "world-in-one-country" has to be experienced in a matter of days, few will disagree that the essentials can be reduced to a game-viewing break in the Eastern Transvaal and a meandering trip to the coast and winelands of the "Fairnest Cape."

On the surface the issues are clear enough: Nampo wants the producer price of maize increased R50 a ton to R270 a ton in the current season.

As with most sensitive questions affecting consumers, the price increase has to be sanctioned by the Cabinet. If the Nampo demand were to be sanctioned it would mean that growers will have been awarded price increases of 77 per cent in three years.

The reasons most often advanced for seeking such a large increase are three years of drought, two years of punitive interest rates and, most important, murderous increases of farm input costs—fertilizer, vehicles, fuel and so on. Nampo suggests that, while the Government can hardly be held responsible for the drought—although some prophetic Calvinists might disagree—it must bear the blame for high interest rates and for inefficient farm input and equipment manufacturers.

To reinforce the point, Nampo has based its latest price demands on the local cost of producing one ton of maize and as in the past, on the import parity cost of maize. This is passed off as a generous gesture since the 49 per cent depreciation of the Rand against

the U.S. dollar (in which the international maize price is denominated) since last year would have commanded a far higher domestic price than the R270 the growers are asking.

Officials of the Department of Agriculture say that Nampo has overstated its calculation of production cost inflation by R50 a ton and suggest that there should be no maize price increase this year.

Certainly, Nampo's own figures show that maize prices have sharply reduced the physical use of inputs over the last five years. Based on a 1980 index of 100, purchases of fertilizer declined 14 points by 1984, tractors by 59 and weed-killers by 32, while the area under maize reduced by 11 per cent. Seen with the estimated increase of 2.3m tonnes (to 6.7m tonnes) in the current maize crop over last year, it would seem that average production costs have in fact fallen sharply.

Officials caution that the maize lobby is placing growers in jeopardy. Even with a weak Rand, exports at the suggested producer price would be uncompetitive in world markets, although there will be no interest in exports this year because the crop will just about cover domestic consumption.

Even so, there are signs that something serious is going wrong on the demand side. Per capita consumption of maize fell from 115.7 kg in 1982-83 to 78.9 kg in 1983-84. Animal feed requirements have fallen 30 per cent and balanced feed maize must be scarce or key grains, wheat and sorghum, if maize producer prices are not stabilised.



Kruger National Park: the greatest of South Africa's breathtaking game reserves

## White farmers under pressure

A SEA change seems to be taking place in South African agriculture. This has less to do with physical or economic factors than with profound disturbance of the strong traditional bonds of mutual reliance between the South African Government and the country's 70,000 white farmers.

It would be putting too fine a point on it to say that this special relationship is under pressure because of alienation of sections of the Afrikaner tribe, but it seems more than a coincidence that the heaviest demands for special treatment are coming from the most militant and best organised sector of the farm lobby, the 8,000 maize growers of the Orange Free State and Transvaal provinces.

In none of the 40-50 rural districts covering the South African "maize triangle"—which accounts for more than 80 per cent of the crop—can it be said with any certainty that Nationalist Afrikaners would not give substantial, if not decisive support to right-wing Afrikaner parties like the Herstigte Nasionale Party and the Conservative Party if a general election were to be called now and not four years hence.

There seems to have developed a subtle tactical struggle between the government and the heavyweight growers who have organised themselves into a tightly knit, formal structure which they call the National Maize Producers Organisation (Nampo).

On the surface the issues are clear enough: Nampo wants the producer price of maize increased R50 a ton to R270 a ton in the current season.

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### Changes in agriculture

JOHN STEWART

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The Rand Show, Johannesburg. The white farming community has traditionally been an important factor in South Africa's feedstock of power

Such is the nature of the visible war. At another level, the test of wills is more insidious. Nationalist Afrikaners' emotional ties with the land have for many generations ensured farmers of a good living, of stout support and relief in bad times, and a favourable return on capital employed in good times.

### Votes

Traditionally, through gerrymandering, a white rural vote was worth four or five in the metropolitan areas. Strategically, it is important to maintain white occupation of the remoter regions, to show the flag and give the lie to criticism of unfair distribution of land—87 per cent for whites, coloureds and Indians, who barely make up 20 per cent of the population, while blacks have been allocated a mere 13 per cent.

The Afrikaner on the land has traditionally been an important part of the feedstock of power. The trade-off between political power and material welfare is real, it is stated.

There is little doubt that such considerations weigh heavily upon the mind of Mr P. W. Botha's Government. It has

not been easy to preside over the fragmentation of the monolith, even though the formal Afrikaner right-wing constitutes at present little more than a fringe. It is rather the fear that unpopular action would result in irretrievable alienation. Do the farmers have the clout to overturn these calculations?

In 1983-84 the gross value of agricultural production was R8.5bn, made up of R3.9bn from animal products (meat, wool, etc.), R3.1bn from field crops (a bad year) and R1.5bn from horticulture. The contribution of agricultural production to GDP in that year was about 5 per cent.

In a significant break with past practice, the government announced in its March budget the level of aid it intends to give in 1985-86 and the published figure suggests that the question of farm support will no longer be open-ended.

In fact there are signs that the Government may exert tighter control on the quantum of relief farmers have been accustomed to. The difference between what they want—R1bn—and what the South African exchequer has budgeted for in the 1985-86 fiscal year—R300m—is too wide to be anything

but alarming. But the Government is under severe pressure from the broad business sector to avoid spending overruns and restore credibility in the Budget, reduce the level of inflation and interest rates, and try to stimulate private investment. Do the farmers have the clout to overturn these calculations?

According to official statistics, the importance of the farm sector cannot be overstated. Latest official figures indicate that the value of capital assets, including livestock and vehicles, was R38.3bn in 1983, or 40 per cent of GDP.

In 1983, when the maize crop failed, the value of farm imports was R429m, out of total SA imports of R16.3bn.

By contrast, the value of farm exports in the period 1980-83 (three normal years) averaged R20n or 10 per cent of total exports of goods and services.

## Government faces tough decisions

### Moves towards privatisation

JOHN STEWART

new constitution, a massive pay award of 25 per cent, effective over two years, was announced. As the result of the referendum showed, the award favourably affected sentiment at the polls. But it finally seemed to have dawned on the authorities that persistent government over-spending is the primary cause of high inflation. In an unprecedented move in March, the Government announced an overall reduction of 3 per cent in the remuneration of members of parliament and the executive, followed by a 30 per cent reduction in public service bonus payments.

Although the next general election is in four years' time, it doubtless demands some political stoutness to tamper with the pay packets of what is traditionally the feedstock of political power.

Not even Mr Botha could have been prepared for the howls of protest that greeted his announcement. That he did not run for cover and relent in the face of such tough threats

of retaliation is possibly the most eloquent testimony to date that white politics has moved into a new lane.

A vital adjunct to the government's commitment to reduce its share of the economy by cutting current spending is the intention, as yet poorly defined, to sell state assets. There are compelling reasons to do so. On the best available information it seems that government spending, as a percentage of GDP, could rise from its present 37 per cent to 50 per cent by the year 2010 if present trends continue.

The immediate sale of state corporations would have a telling effect on government revenues, reduce the pressure to spend, improve economic efficiency and broaden the tax base.

It is estimated, for example, that SA Transport Services, the state transport monopoly, would achieve a market capitalisation of R10bn, ignoring debt. This would make it the biggest listing on the Johannesburg Stock Exchange, worth more than Anglo American Corporation and Sasol combined.

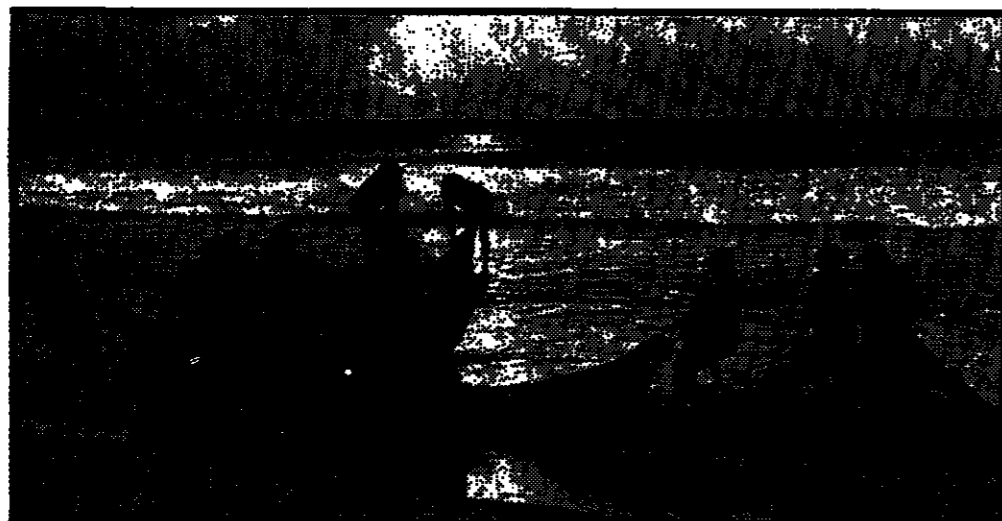
It is easy to under-estimate investor interest in privatising state enterprises. For after years, sometimes, of declaring deficits, there is an understandable tendency to assume that

state corporations are simply not profitable. That is partly the fault of the corporations themselves—because they use antiquated accounting policies that tend drastically to under-report profits and overstate costs.

It is a device, moreover, that has been used to good effect to argue for higher controlled prices for outputs. Many state enterprises are, in fact, highly profitable. In 1984, SA Transport Services' net operating profit was R20n on turnover of R4.5bn, while the Department of Posts and Telecommunications made R880m on turnover of R23n. This makes them two of the most attractive propositions in the country.

In the case of SA Transport Services its reported profits were R76m, after writing off depreciation of R368m, additional depreciation of R478m, and other non-cash items and financial charges of about R10m. It invested R1.4bn during the financial year, leaving it with a cash inflow (or surplus) of R680m after investment.

Nonetheless, strong doubts remain over the Government's political will to sell-off its undertakings—which are largely staffed by people it hopes to retain as political supporters.



Fishermen gather in their nets as the sun sets over the Durban coastline

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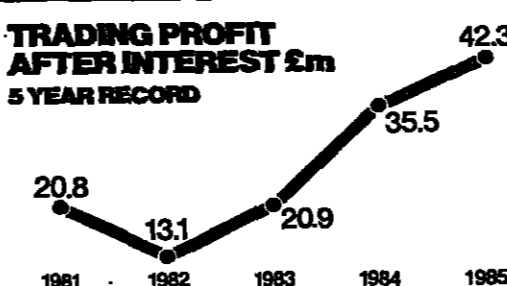
## All-round progress at Vaux with rise to £5.1m midterm

Sales for the first half rose by 53 per cent to £4.26m.

Fairline Boats, the only publicly listed boat building company, has the following record for the year: a \$106,000 rise in pre-tax profits to \$252,000 in the six months to March 31 1985. The interim dividend is raised to 15p (1.25p) net and the directors hope to pay a "rather larger" final than last year's 1.5p. Provided there are no significant rises in the values of the group's assets, there should be no difficulty in selling its entire production of boats until well into the autumn. The directors look forward to the second half and to 1986 with "reasonable optimism". Sales for the first half rose by 53 per cent to \$42.6m.

## FINANCIAL HIGHLIGHTS

	1985	1984
	£m	£m
Turnover (excluding VAT)	728.8	683.6
Trading profit after interest	42.3	35.5
Profit before taxation	40.7	32.7
Profit attributable to ordinary shareholders	19.8	23.2
Earnings per share	20.6p	17.2p
Dividends per share	8.5p	7.5p



	FUTURE DATES
Interline.....	May 21
Brent (Hastree).....	May 21
Cramphorn.....	May 21
Outlier.....	May 18
Kelsey Industries.....	May 21
MEPC.....	May 21
Ranka Hovis McDougall.....	May 21

<p><b>Rate for depositors entitled to a notice period</b></p> <p><b>12<math>\frac{3}{4}</math>% pa</b></p>	<p><b>Rate for depositors entitled to a variable rate</b></p> <p><b>9-53<math>\frac{3}{4}</math>% pa</b></p>	<p><b>Closest equivalent to a basic rate</b></p> <p><b>13-61<math>\frac{3}{4}</math>% pa</b></p>
<p><b>14 Days Notice</b></p> <p>Minimum deposit is £2,500</p>		
<p><b>Cheque Savings Accounts</b></p> <p>When the balance is £2,500 and over</p>		
<p><b>12<math>\frac{1}{2}</math>% pa</b></p>	<p><b>9-15<math>\frac{3}{4}</math>% pa</b></p>	<p><b>13-08<math>\frac{3}{4}</math>% pa</b></p>
<p>When the balance is £250 to £2,500</p>		
<p><b>10<math>\frac{1}{2}</math>% pa</b></p>	<p><b>7-66<math>\frac{3}{4}</math>% pa</b></p>	<p><b>10-94<math>\frac{3}{4}</math>% pa</b></p>

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			Gross Yield		P/E	
High Low	Company	Price	Change	div.(p.)	Actual	
145 123	Aes. Brit. Ind. Ord. ....	145	-	6.8	4.3	8.6
151 135	Aes. Brit. Ind. CULS. ....	150	-	6.8	4.3	8.6
77 55	Avon Products Group .....	75	-	6.4	11.9	6.0
42 36	Armistage & Rhodes ....	34	+	2.8	8.5	4.1
148 106	Barden Film .....	102	-	3.9	7.5	8.3
171 150	Bay City .....	150	-	5.5	13.3	4.7
201 170	CCIL Ordinary .....	172	+ 2	12.0	7.0	-
110 90	CCIL Tye Conv. ....	90	-	5.5	13.3	4.7
110 100	Coramundo Ord. ....	115as	-	4.9	4.1	5.8
88 84	Carbomundum 7.5pc Pl. ....	80	-	7.0	12.2	-
100 90	Coburn .....	98	-	5.5	13.3	4.7
250 182	Frank Horsell Pr.Grd.87 ..	230	-	-	-	12.9
268 170	Frank Horsell Pr.Grd.87 ..	220	-	9.6	3.7	10.4
100 80	Breda .....	80	-	-	-	-
68 53	George Blair .....	57	-	2.7	13.5	5.8
50 40	Ind. Proclation Castings ..	186	-	15.0	8.1	7.3
120 100	Iain Group .....	115	-	4.9	4.7	4.3
124 101	Jackeson Group .....	105	-	4.9	4.7	4.3
255 213	James Burroughs .....	215	-	12.9	14.5	4.4
90 80	Jones Kirghz Spt. Pl. ....	88as	-	5.0	5.5	6.7
87 71	John Howard and Co. ....	85as	-	-	-	-
225 100	Lingaphone 7.5pc Pl. ....	100	+ 2	5.8	15.0	15.3
300 230	Lingaphone 7.5pc Pl. ....	260	-	6.9	1.1	28.4
650 300	Minihouse Holding NV .....	600	-	5.8	1.1	27.0
120 91	Robert Jenkins .....	95	+ 2	5.7	10.8	17.9
90 58	Scrutton .....	58	-	5.7	10.8	17.9
82 81	Torday & Carlisle .....	76	-	4.3	1.5	18.8
44 39	Trevian Holdings .....	30	-	1.3	4.3	14.8
100 80	Union Ind. .....	80	-	5.4	7.6	5.6
39 31	Weiser Alexander .....	39	-	7.8	7.7	10.5
247 218	W. S. Yates .....	225	-	-	-	-

Prices available on Frostat, page A8146

Specialisation is the key feature of Debenhams' corporate strategy. The Debenhams' nation-wide Stores Group has been divided into a Stores Operations Company and 10 trading companies, each a specialist in its field. These trading companies are responsible to central management for their own profitability and all aspects of their business, including both buying and selling. Debenhams' joint ventures, particularly with Harris Queensway, and the other retailers who provide the 'shops within shops' inside Debenhams stores find a natural position in this framework. The pattern of specialisation is reflected in Debenhams' other well-known activities and retail outlets, including Harvey Nichols, Hamleys, Rayne

In the USA, Rayne Delman/I. Miller operate a specialist shoe retailing business.

## PROPERTY

Strategic specialisation has led logically to the establishment of a separate property company within the Group. Freebody Properties, whose assets are over £200 million, is the landlord of most of the Group's trading activities, with leases at commercial rents.

**Management of Debenhams' property portfolio is in the hands of property professionals and the trading companies are subjected to the pressures of market rents.**

Freebody is involved in a major development at Preston, which will include a Debenhams store, and is exploring further development opportunities.

## FINANCIAL SERVICES

**Welbeck Finance, formed as an autonomous company to manage the Group's credit services, has achieved substantial and profitable growth in its specialist field of consumer credit finance to both Debenhams and more than 50 outside clients.**

The provision of charge card schemes remains the core of Welbeck's business, but its range of associated financial services in insurance, leasing, pensions and other fields continues to grow.

To: The Company Secretary, Debenhams PLC  
1 Welbeck Street, London W1A 1DF.

*Please send me a copy of Debenhams' 1985 Annual Report.*

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Postcode \_\_\_\_\_

Swirling	£	10.041x2d	11.62%
Australian Dollar	AS	15.073x2d	13.77%
Canadian Dollar	CS	20.059x2d	8.09%
Dutch Guilder	DFL	50.105x2d	5.78%
Danish Krone	Dkr	130.418x2d	7.23%
Deutschemark	DM	40.068x2d	4.59%
Belgian Franc (FIN)	BFR	802.23x2d	7.38%
French Franc	FFr	100.34x2d	8.75%
Hong Kong Dollar	HK\$	100.233x2d	6.75%
Italian Lira	£	25.080x2d	10.64%
Singapore Dollar	S\$	30.047x2d	4.26%
Swiss Franc	SFrF	30.0351x2d	3.12%
US Dollar	\$	15.041x2d	7.16%
Japanese Yen	¥	3506.07x2d	4.99%
		Bid	Offer
Man Sea	£	9.48138x2d	9.77462x2d
Daily Quotes			

# DEBENHAMS

*Specialists - above all*



## Scottish Amicable chairman















[illegible]

## AUTHORISED UNIT TRUSTS

[illegible]**FT UNIT TRUST INFORMATION SERVICE**[illegible]

## Financial Times Friday May 10 1985

[illegible]

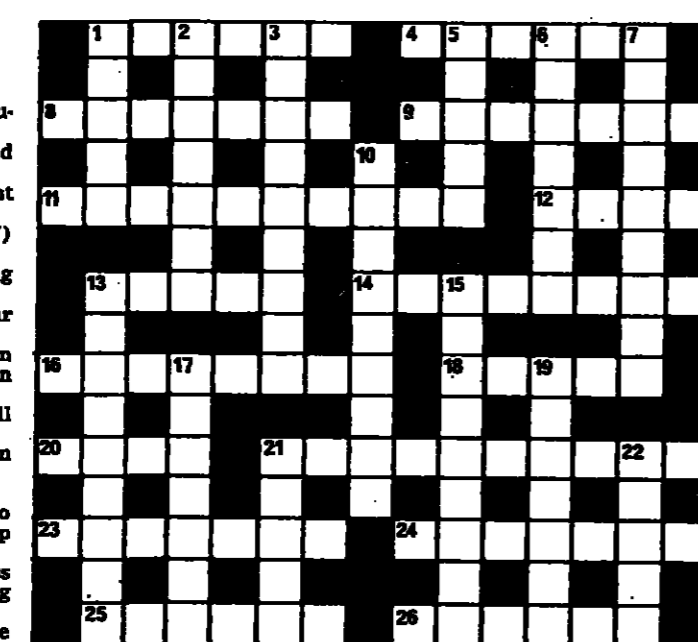
**F.T. CROSSWORD  
PUZZLE No. 5,714**

### ACROSS

- 1 Bating team appears exclusive (6)
- 4 Keep clear of cheese spread endlessly by women (8)
- 9 Semi-conducting element wound in coils (7)
- 9 Pole in centre shows rust (7)
- 11 Irish country-club (10)
- 12 Given topping stuff, showing bad cold symptoms (4)
- 13 Caterpillar of a popular variety (5)
- 14 Advantageous position from which to see subjects on canvas (8)
- 16 Fit standard lower, yet still moving initially (8)
- 18 Feded looking dust in Wyoming (5)
- 20 Milton's famous goad? (4)
- 21 In a phone-box, I go to pieces—it's enough to keep me at home ... (10)
- 23 ... I am in mental distress—there is something wrong (7)
- 24 Cheeky type to fight at the line (7)
- 25 Pitching on the platform? (6)
- 26 Gunster shout of terror holding English record (6)

### DOWN

- 1 Hibernian flag hard to open (5)
- 2 Scotch manufacturer more quiet? (5)
- 3 Heavily backed Arab thoroughbred? (9)
- 5 Animal showing reluctance to exert itself (5)
- 6 Unduly bold type of verse (5)
- 7 We would contract and send out—always in twenty-four



### Solution to Puzzle No. 5713

**NOTES**





